BUDGET BASICS

BUDGET PROCESS – A PRIMER

PURPOSE

This section provides an overview of the basic budget concepts, definitions of budget terms, and background and reference information pertinent to the 2007 biennium budget and legislative appropriations process. For more in-depth information, see “Understanding State Finances and the Budgeting Process”, available through the Legislative Fiscal Division.

TYPES OF LEGISLATIVE APPROPRIATIONS

Article VIII, Section 14, of the Montana Constitution reads:

> “Prohibited Payments: Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof.”

Appropriations power lies with the legislature. In 17-7-501, MCA, three types of appropriations fall within the meanings of “appropriation made by law” as used in Article VIII, Section 14, of the Montana Constitution.

<u>Temporary appropriations</u> – Most activities of state government are funded on a temporary basis, usually for two-year periods. Funding, therefore, must be reauthorized by each legislature. The main vehicle for the provision of temporary appropriations is HB 2 (the General Appropriations Act).

<u>Statutory appropriations</u> – Statutory appropriations are made directly in statute, and are automatically made until and unless the law is changed. Statutory appropriations are listed in 17-7-502, MCA.

<u>Budget amendments</u> – Various authorities (most often the Governor) can approve the addition of certain funds (primarily federal) during the interim if certain statutorily- defined conditions are met. General fund appropriations cannot be added without express legislative approval.

In limited cases, authorizations to expend funds can also be made through appropriation or under general laws and contracts. The great majority of state agency operations are funded through temporary appropriations.

FUND TYPES

Governmental accounting differs from private enterprise accounting in that funding is segregated and defined by the source and use of the funding. There are four main groups of funds in state government accounting.

1. Governmental funds consist of the following funds:
    - General fund includes all financial resources except those that must be accounted for in another fund. The general fund collects most general taxes levied, including individual and corporate income tax, property tax, and investment income. Revenue from a number of other taxes is also deposited into the general fund.
    - Special revenue funds consist primarily of two funds:
    - State special revenue is money from state and other sources earmarked for the purpose of defraying particular costs of an agency, program, or function. The largest state special revenue accounts are the Highways State Special Revenue Account (HSSRA), which collects various fuel taxes and is used to support highway-related functions, and the general license account, which collects various hunting and fishing fees and is used to support functions in the Department of Fish, Wildlife, and Parks
    - Federal special revenue is revenue from federal sources. Most state agencies receive some federal funds. The two major sources of federal funds are used to support highway-related functions and human services programs such as Medicaid. This fund also accounts for trust activity formerly defined as expendable trusts.
    - Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligations, including principal and interest. Debt service funds are statutorily appropriated.
    - Capital projects funds are financial resources used for the acquisition or construction of major fixed assets. These funds are appropriated through bills that fund capital projects.
    - Permanent funds account for resources that are restricted to the extent that only earnings and not principal may be expended for purposes that support state programs. These resources were formerly classified as non-expendable trusts (i.e. the coal tax trust).

2. Proprietary funds are used for operations that provide goods or services to the public on a user-charge basis (enterprise funds), or to other agencies or programs of state government (internal service funds).
3. Fiduciary funds provide for those assets held by state government in a trustee capacity, or as an agency for individuals, private organizations, other governmental entities, or other funds.
4. University funds are used to support the university system and are classified according to the College and University Business Association (CUBA) structure. The legislature appropriates a portion of the funds used to support the university system as governmental funds, which are then reclassified as university system funds.

With the exception of a small portion of proprietary funds, the legislature does not directly appropriate proprietary, fiduciary, or university funds. The legislature directly appropriates most governmental funds. Debt service funds are usually statutorily appropriated. Capital projects funds are appropriated in the bills that fund the capital projects. The great majority of general fund monies and special revenue funds are appropriated through temporary appropriations bills.

HB 2

The temporary spending bill through which almost 90 percent of general fund monies and special revenue funds are appropriated is HB 2, the General Appropriations Act. The budget analysis contained in Volumes 3 and 4 of the Legislative Fiscal Division 2005 Biennium Executive Budget Analysis concentrates on the appropriations proposed for inclusion in HB 2.

Statute requires that the legislature establish fees and charges for all internal services functions. Statute further restricts programs from increasing those fees and charges during the biennium. The Executive Budget must also include a rate analysis of enterprise funds and internal service fees and charges. While only a small portion of proprietary funds are appropriated in HB 2, all rates approved by the legislature are listed in that bill.

Figure 1 shows all internal services rates reviewed and approved by the legislature.

Figure 1

Internal Services Functions 2005 Biennium	
Agency/Program or Function	
Secretary of State	
	Records Management
	Administrative Rules
Transportation	
	Motor Pool
	Equipment
Revenue	
	Customer Service Center
Administration	
	Accounting/Management Support
	Procurement and Printing
	Information Services, including SABHRS Operations
	General Services
	Mail and Distribution
	Professional Development Center
	Payroll
	State Employee Benefits
	Risk Management/Tort Defense
Fish, Wildlife, and Parks	
	Administration and Finance
	Capitol Grounds Maintenance
	Aircraft and Vehicle Usage
	Duplicating and Bindery
Environmental Quality	
	Central Management
Natural Resources and Conservation	
	Air Operations
Commerce	
	Local Government Services
	Board of Investments
	Director/Management Services
Justice	
	Agency Legal Services
Corrections	
	Corrections Enterprises
	Cook/Chill
Labor and Industry	
	Professional and Occupational Licensing
	Central Services Division
Office of Public Instruction	
	Centralized Services
	Advanced Drivers Education
Montana University System	
	MUS Group Insurance

BUDGET TERMS

Budgets must, by statute, be submitted in three tiers to allow legislative scrutiny of all stages of budget development:

<u>The base</u> - defined as the resources for the operation of state government, and used to cover current biennium expenses of an ongoing and non-extraordinary nature. The base and how it is derived are discussed in more detail in the "Base Budget" portion of this narrative.

<u>Present law</u> - defined as that additional level of funding needed to maintain operations and services at the level authorized by the previous legislature. Present law includes but is not limited to legally-mandated workload, caseload, or enrollment changes, changes in funding requirements, inflationary or deflationary adjustments, and elimination of one-time appropriations.

<u>New proposals</u> - defined as requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

Changes to the budget are made individually through decision packages, which must be approved by the legislature. Decision packages can either change present law or add new proposals approved for funding.

SUBMISSION DATES

The director of the Office of Budget and Program Planning (OBPP) is required to submit a preliminary budget reflecting the base budget to the LFD by October 10, and a preliminary budget reflecting a present law base by November 1 in the year before a session. The director is further required to submit an entire preliminary budget by November 15. The LFD provides a detailed and comprehensive analysis of the executive budget, as well as an analysis of other fiscal policy issues.

BASE BUDGET

The current executive budget used actual fiscal 2004 expenditures as recorded on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) as the base for determining a present law budget for the 2007 biennium. Certain items were then excluded in order to create a base that reflects only: 1) the cost of ongoing programs or functions approved by the last legislature; and 2) expenditures authorized by the legislature. OBPP and LFD staff reached agreement on virtually all expenditures removed from the base. The LFD analysis provides an explanation within context of any program in which a base difference remains.

Expenditure Base Exclusions

Following is an explanation of each type of expenditure category excluded from the base:

Appropriation Transfers

Section 17-7-301, MCA, allows the Governor to authorize the transfer of funds appropriated for the second year of the biennium to the first year, if the Governor finds that “due to an unforeseen or an unanticipated emergency” the amount appropriated for the first year of the biennium “will be insufficient for the operation and maintenance of the department.” Since such transfers do not result from legislative action and may be used for meeting one-time costs, these transfers are excluded from the base. However, if the transfer funds an ongoing cost, OBPP adjusts the present law budgets for the next biennium accordingly.

Budget Amendments

Budget amendments provide temporary authority allowing agencies to spend unanticipated non-general fund revenue received after the legislature has adjourned. This revenue can be used to provide additional services. In accordance with 17-7-402, MCA, budget amendment authority terminates at the end of each biennium and can make no “ascertainable present or future significant commitment for increased general fund support.” Expenditures financed through budget amendments are excluded from the base. If an agency wishes to continue an activity financed with a budget amendment in the following biennium, the request must be presented as a new proposal.

One-Time Appropriations

In general, miscellaneous or “cat and dog” appropriations (appropriations made in bills other than the general appropriations act) are considered “one-time” and not continued in the base. The legislature may specify in appropriation acts that an appropriation is not intended to be ongoing and may not be included in the base.

Language Appropriations

In appropriation acts, the legislature may authorize expenditure of funds from a specific source without providing a specific dollar appropriation. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds (that it is required by statute to spend) but is uncertain as to the amount of those funds. In order to be sanctioned by law as an appropriation, the language must, at least, fix a maximum amount that the appropriations may not exceed. Assuming that ongoing expenditures from these sources are one-time only in nature, the expenditures are excluded from the base.

Non-Budgeted Expenditures

Generally Accepted Accounting Principles (GAAP) require agencies to make accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't result in the actual expenditure of funds from the state treasury.

Statutory Appropriations

Section 17-7-501, MCA, provides that funds may be appropriated in permanent law rather than through appropriation bills, which are effective for one biennium only. In order for a statutory appropriation to be valid, the statute creating the appropriation must specifically state that it is a statutory appropriation. The statute must then be listed in section 17-7-502, MCA. Currently, there are 72 valid statutory appropriation references listed. Examples of statutory appropriations include reimbursements to local governments and debt service payments.

Other Appropriations

This category includes administrative transfers created by OBPP, continuing appropriations from previous years, internal offset adjustments to appropriations, and miscellaneous appropriations.

ENTITLEMENT AND FORMULA FUNDED PROGRAMS

Under current state and federal law, certain programs are "entitlement programs," which means that if an individual meets the underlying criteria for qualification, services must be provided (i.e., the person is "entitled" to the service). Projected growth or declines in these programs are funded as part of the present law budget, rather than through new proposals. For example, the legislature has established statutory levels of state support for each child enrolled in Montana public schools. Similarly, federal and state laws require that persons eligible for Medicaid receive specified services or grants. Programs treated as entitlement include K-12 BASE aid, subsidized adoption, foster care, and Medicaid.

PERSONAL SERVICES "SNAPSHOT"

Personal services costs comprise over 39 percent of total agency operating expenditures (excluding capital outlay, grants and benefits, and transfers) in the 2007 biennium executive budget.

The executive budget is based on a "snapshot" of actual salaries for authorized FTE, as they existed in the last pay period of fiscal 2004. The executive budget includes annualization of the pay increases appropriated in fiscal 2004 and 2005.

Benefits are added on an individual FTE basis. Workers' Compensation and Unemployment Insurance rates vary from agency to agency, as each agency has a different rate based upon experience.

VACANCY SAVINGS

Vacancy savings is the difference between the full appropriated cost and the actual cost of authorized employee positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in personal services expenditures lower than the amounts appropriated.

During the 1997 biennium, the legislature included varying vacancy savings rates among selected agencies, and among programs within agencies, in order to fund the executive pay plan. A contingency fund containing $500,000 general fund and $1,000,000 in other funds was included for this purpose.

During the 1999 biennium, the legislature applied a uniform 3 percent vacancy savings rate against all positions in state government, with the exception of those positions in agencies with fewer than 20 FTE. The legislature also assumed that any new positions added via new proposals would not be hired at the very beginning of the fiscal year as a result of the need to recruit and to meet other requirements demanding the expenditure of time. Operating under the assumption that such positions would not be filled for the first three months of the fiscal year, the legislature applied a 25 percent vacancy savings rate in the first year. The legislature also provided $2.3 million general fund and $8.8 million in other funds for the biennium in support of a contingency pool for those agencies that could not meet their vacancy savings targets.

For the 2001 biennium, the legislature adopted a vacancy savings rate of 3 percent on all personal services except insurance. This rate was not applied to agencies with fewer than 20 FTE, elected officials, university system faculty or to direct care workers within the Department of Corrections. The legislature funded a contingency pool of $700,000 from the general fund and $950,000 in other funding for the biennium.

For the 2003 biennium, the legislature enacted a 4 percent vacancy savings rate on all personal services. As in the 2001 biennium, agencies with fewer than 20 FTE as well as university system faculty were exempt. The legislature also included a contingency fund of $1.3 million general fund and $3.0 million from other funds (the legislative branch also received $200,000 general fund) for the biennium to meet potential costs involved for those agencies that do not meet their vacancy savings targets.

For the 2005 biennium, the legislature enacted a 4 percent vacancy savings rate on all personal services. As in the 2003 and 2005 biennia, agencies with fewer than 20 FTE as well as university system faculty are exempt. A contingency fund of $1.5 million general fund and $3.0 million other funds was added to fund potential costs in excess of the appropriation.

In the 2007 biennium, the executive is once again recommending a 4 percent vacancy savings on all personal services. The following agencies and positions were exempted:

- Agencies with fewer than 20 FTE
- University system faculty
- Elected officials
- Judiciary
- Legislative Branch

FIXED COSTS

Agencies are charged fees (called fixed costs) for a variety of services provided by other state agencies. The executive budget includes fixed costs for the following services: Department of Administration (DofA) insurance and bonds (62104), DofA warrant writing fees (62113), DofA payroll service fees (62114), Legislative Auditor audit fees (62122), SABHRS (Statewide Accounting, Budgeting, and Human Resources System) operating costs (62148), DofA network fees (62174), messenger services (62307), state motor pool lease vehicle (62510), DofA rent (62527), capitol complex grounds maintenance (62770), and the statewide cost allocation plan (62888).

Figure 2 shows the total amounts included in the executive budget for fixed costs.

Figure 2

Fixed Costs
2007 Biennium Executive Budget (in millions)*

Subcommittee/Agency	Function	Total
General Government		
Administration	Insurance and Bonds	$28.9
	Warrant Writing Fees	1.6
	Payroll Service Fees	0.9
	Data Network Services	21.6
	SABHRS Operating	12.7
	Messenger Services	0.3
	Rent - Buildings	13.5
Legislative Audit Division	Audit Fees	3.1
Natural Resources and Commerce		
Fish, Wildlife, and Parks	Grounds Maintenance	0.7
Various	Statewide Cost Allocation	3.7
Total		$86.9

Insurance and Bonds

The Risk Management and Tort Defense Division of the DofA collects premiums from state agencies for: 1) administration of the self-insurance program, which provides state agencies with general liability and automobile coverage; and 2) purchase of commercial policies for state agency property, aircraft, and to protect against the potential consequences of other risks. Costs are allocated to agencies based upon actual loss experience and inherent exposure.

Warrant Writing Fees

DofA provides warrant writing and direct deposit services for agency financial transactions. The costs of these services are allocated to agencies based upon actual utilization of the various types of transactions in the three previous years.

Payroll Service Fees

The State Payroll Program in DofA prepares and distributes payroll for all state agencies. Costs of these services are allocated to agencies based upon the number of paychecks issued for each agency per year.

Audit Fees

The legislative Audit Division charges agencies for the costs of financial compliance audits. These charges are included in agency budgets as biennial appropriations and allocated according to the estimated number of billable hours for each agency audit.

SABHRS Operations Unit

This unit provides all operational support for the Statewide Accounting, Budget, and Human Resources System (SABHRS). Costs were allocated in the executive budget based upon the number of full-time equivalent employees.

Data Network Services

The Information Services Division (ISD) of DofA charges agencies for the technology network that allows agency personal computers to be attached to the state mainframe and, via the mainframe, to other agency computers. Costs for this service are allocated to agencies based upon the projected number of personal computers connected to the network each year. A fixed monthly rate per computer is used to determine the overall agency charge.

Messenger Service

The Mail and Distribution Program in DofA charges state agencies for interagency mail pickup and delivery services. Costs for these services are allocated to agencies based upon the volume of mail generated by, and number of daily deliveries to, each agency.

State Motor Pool Lease Vehicles

The state motor pool provides vehicles to agencies of state government on a lease basis. Unlike the daily rental, the vehicles are located at the agency location on a permanent basis. Agencies possessing the vehicles are assessed both a daily charge and a per mile charge for vehicle usage.

Rent

The General Services Division (GSD) of DofA charges rent to state agencies for costs relative to maintaining office and warehouse space in the capitol complex buildings managed by GSD. Included in the charges are utility, security and janitorial services, mechanical maintenance, and minor maintenance costs including such items as painting, lighting and carpeting. Warehouse costs are allocated to agencies based upon the amount of square footage of office warehouse space occupied; a fixed rate per square foot is used.

Grounds Maintenance

The Parks Division of FWP charges state agencies for grounds maintenance and snow removal at capitol complex buildings. Costs of these services are allocated based upon the square footage of office space occupied by a given agency.

Statewide/State Fund Cost Allocation Plan (SWCAP/SFCAP)

There are two state cost allocation plan components that are directly billed to agencies. Cost allocations are made to collect funds for the support of those state government operating costs that cannot be easily identified with particular funding sources. Collections are deposited to the general fund to offset a portion of those costs, which would otherwise be supported entirely with general fund. The two components are: 1) SFCAP (the state fund costs allocation plan), and 2) SWCAP (the statewide cost allocation plan). SFCAP is a direct charge to offset costs. SWCAP is based upon a rate negotiated by DofA each year with the state's federal cognizant agency (Health and Human Services). Among the programs for which operating costs are partially recovered through cost allocation plan collections are: 1) Procurement and Printing, State Personnel Division, and Accounting/Management Support in DofA; 2) a use charge on construction and renovation of certain state buildings; and 3) budget management services in the Office of Budget and Program Planning in the Governor's Office. Costs are allocated to agencies based upon the following: a) Procurement and Printing – depending upon the service, either requisitions processed, total operating costs, or equal allocations; b) State Personnel - the number of FTE authorized and classified, and the number of union covered employees; c) Accounting and Management Support - the number of accounting and cash transactions; and d) OBPP - the number of budget change documents, budget journal entries, executive planning process requests, and funding sources. Construction and renovation of certain state buildings is based on a user charge of 2 percent of the cost.

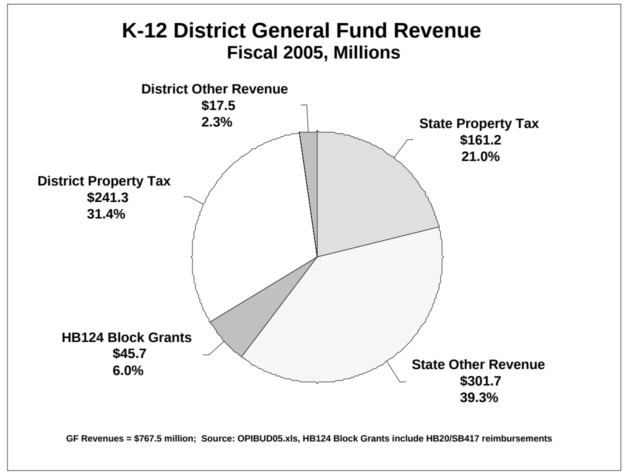
PUBLIC SCHOOL FUNDING – A PRIMER

OVERVIEW

The purpose of this section is to explain how K-12 education is funded. This section focuses on the major district and county funds for which the state supplies at least some of the funding.

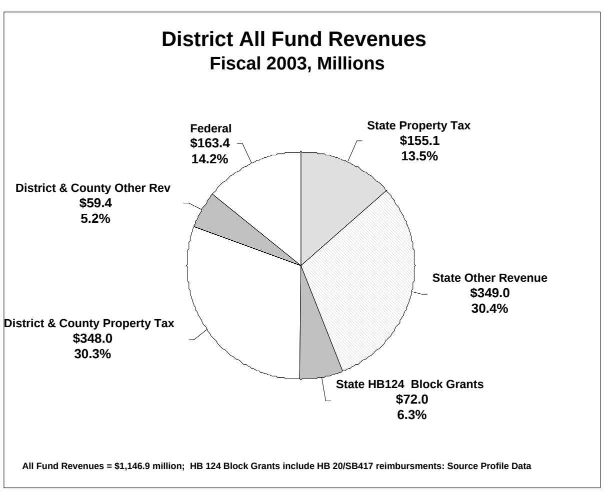
Note: This primer is based on the current law method of funding K-12 education. In November 2004, the Supreme Court upheld a district court decision that the current funding methodology is unconstitutional, as it is not based on educationally relevant factors. The decision also concludes the schools are under funded. The 2005 Legislature will undertake the challenge to review the K-12 funding methodology to comply with a court deadline of October 2005.

Figure 3



The state share of district general fund revenue has declined over the years. In FY 1991, the state's share of district general fund revenue was 71.0 percent. As shown in Figure 3, the state's share of general fund revenue has fallen to 60.3 percent in FY 2005. The state's share includes property tax (the 95 mills) and other state tax revenues (primarily income tax). The local share includes property taxes levied for schools by the district or the county, as well as other district and county revenue. HB 124 block grants, which include reimbursements associated with HB 20 and SB417, are state payments to districts and county education accounts to reimburse these funds for revenues that now flow to the state.

Figure 4



As shown in Figure 4, the state's share of revenue in all district funds was 43.9 percent in FY 2003. State HB 124 Block Grants add another 6.3 percent.

School districts typically may spend out of ten budgeted funds, and many schools spend out of smaller non-budgeted funds. Any fund that is funded by property tax must be budgeted.

The budgeted funds include: 1) general fund; 2) retirement fund; 3) transportation fund; 4) debt service fund; 5) bus reserve fund; 6) adult education fund; 7) tuition fund; 8) building reserve fund; 9) flexibility fund; and 10) technology acquisitions. This primer will focus on the first four of these, since state support in these funds is significant.

DISTRICT GENERAL FUND

The current system of school finance was established in HB 667, passed by the 1993 legislature and first applied to school funding in FY 1994. HB 667 created a system of funding schools in which the state mandates the limits within which a school district may budget its general fund expenditures. The maximum budget is the sum of the district's basic per-district entitlement, its per-ANB entitlement, and up to 200 percent of its special education allowable costs. The BASE (or minimum) budget for a district is the sum of 80.0 percent of the district's basic per-district entitlement, 80.0 percent of its per-ANB entitlement, and up to 140.0 percent of its special education allowable costs.

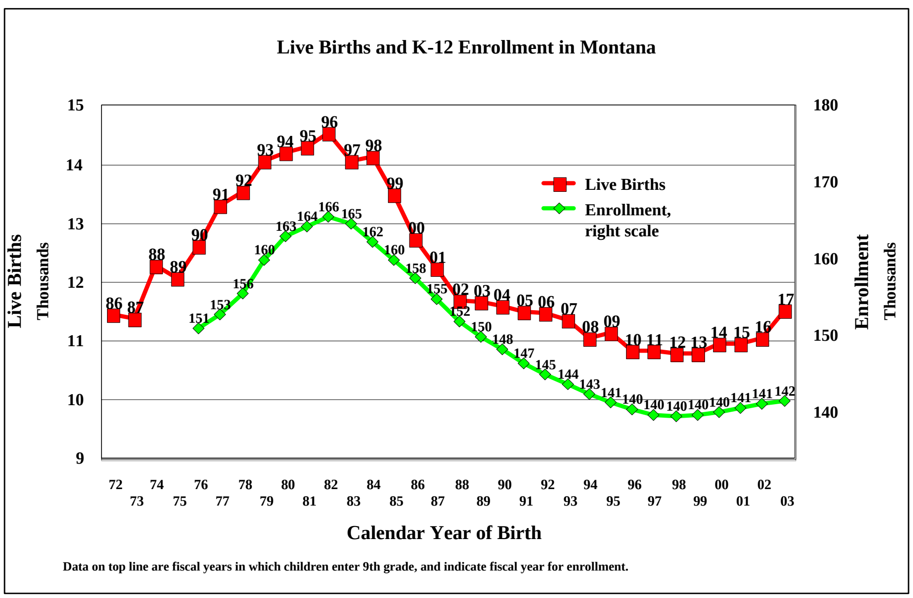
HB 667 allowed schools that had been budgeting above the newly created maximum budget in the past to continue budgeting at that level indefinitely. Subsequently, this grandfather clause was altered in HB 22 (1993 special session), which required district voters to approve any budget authority above the maximum budget.

In FY 1994 when the new system was first implemented, many schools had general fund budgets that were below the BASE budget. Districts with budgets below the BASE budget were required to incrementally increase budget authority and budget at the BASE level by FY 1998.

ANB and Maximum and BASE Budgets

The maximum and BASE budgets are related by a formula in statute to Average Number Belonging (ANB), which is enrollment in the prior year adjusted by teacher days. As shown in Figure 5, enrollment peaked in FY 1996 and has been declining since, mainly as a result of falling birth rates in the mid 1980's through the late 1990's. Recently births have increased, and it is expected that enrollment declines are expected to cease sometime in the next decade.

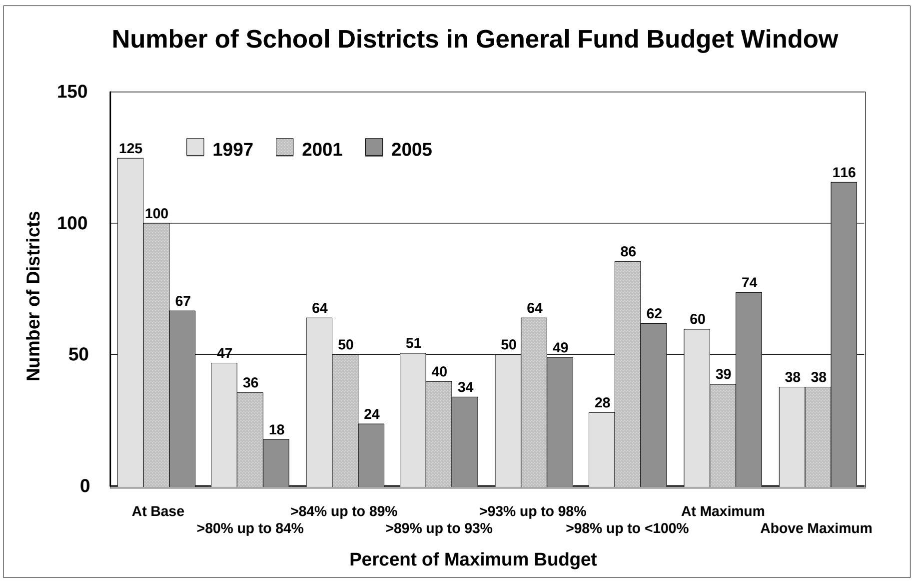
Figure 5



SB424, passed during the 2003 session automatically increases both per district and per-ANB entitlements by the rate of inflation, beginning in FY 2006. The rate of inflation is the Consumer Price Index – Urban Consumers as published by the US Department of Labor. It is a three-year average lagged two years.

Figure 6 shows the distribution of districts in the general fund budget window in FY 1997, 2001, and 2005 for all districts. The adopted general fund budget for each district is divided by the maximum budget for each year. The number of districts in each of the brackets is then counted. A large number of districts budget at the BASE level although the number has declined significantly. Many of these are schools that were required to increase spending to the BASE budget between FY 1994 and 1998.

Figure 6

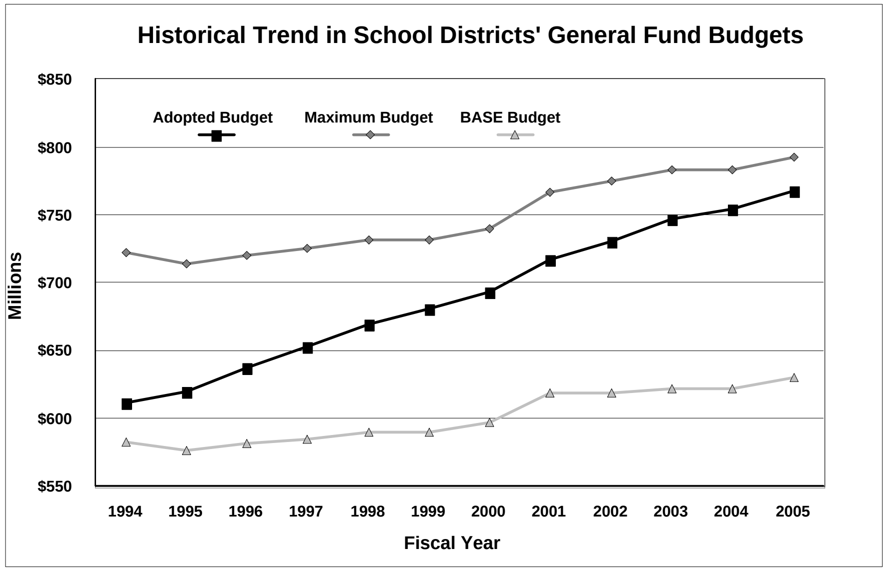


A large and growing number of districts are budgeting above 98.0 percent of the maximum budget. The number of districts budgeting in this area was 126 (27.0 percent of all districts) in FY 1997, 163 districts (36.0 percent) in FY 2001, and 252 districts (57.0 percent) in FY 2005. More schools are budgeting near the maximum because of declines in ANB, which in the absence of legislation, require lower maximum budgets. Beginning in FY 2002 and continuing through FY 2005, there are substantially more districts budgeting above the maximum budget. This is due to SB390, passed during the 2001 legislative session, which allowed districts to budget above the maximum budget for 5 years with voter approval. These are called “soft caps”. Districts that have used the soft cap rule for five years must budget at the maximum budget beginning in the sixth year. For some districts this will be in FY 2007.

As shown in Figure 7, the average general fund budget as a percent of the average maximum budget in FY 1994 was about 84.0 percent. This has risen to 97.0 percent in FY 2005, primarily as a result of reduced ANB slightly more than offset by legislated entitlement increases.

Between FY 1997, when ANB was at its peak, and FY 2005, ANB fell 10.4 percent. During the period, elementary ANB fell 14.0 percent and high school ANB fell 2.2 percent. In FY 2005 there were 17,027 fewer ANB served than in FY 1997. During the same period, basic entitlements were increased by the legislature 15.5 percent for both elementary and high school districts. Elementary per-ANB entitlements were increased 20.6 percent and high school per-ANB entitlements were increased by 14.8 percent. Between FY 1997 and FY 2005, the most severe declines in ANB occurred in the elementary grades. The most severe declines in the future will be in the middle school and high school grades.

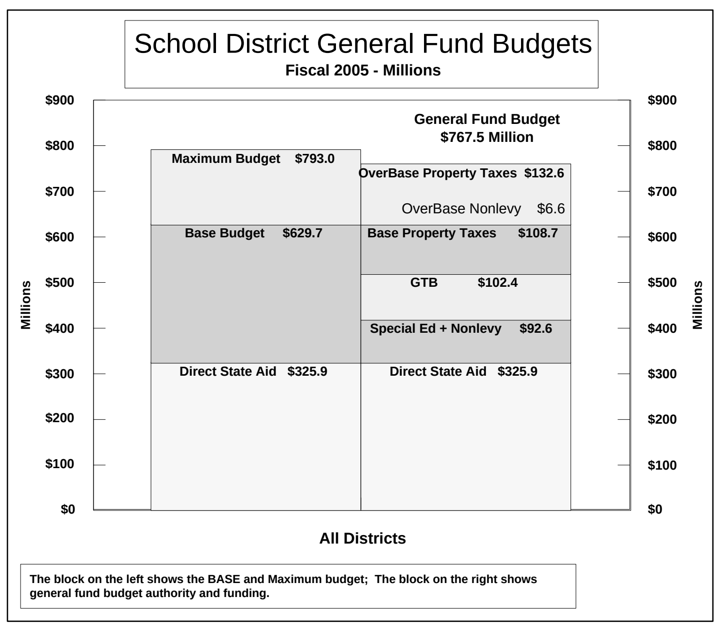
Figure 7



Funding the General Fund Budget

As shown in Figure 8, districts' general fund budgets are funded by state and local funds. State funds consist of direct state aid, state guaranteed tax base (GTB), state special education grants and state HB 124 Block Grants. The sources of local funding are nonlevy revenue (oil, natural gas, and coal receipts, investment interest), property taxes, and reappropriated fund balances.

Figure 8



Direct state aid is a grant from the state to the district. In FY 2005, direct state aid was 44.7 percent of total entitlements used to calculate the maximum budget. The direct state aid percent was 40.0 percent until FY 2000 when it was raised to 41.1 percent. The current level of 44.7 percent was instituted during the May 2000 special session for FY 2001. Direct state aid is the first source of revenue considered by a district. Because it is directly related to entitlements, the geographic distribution of direct state aid is directly related to where children live.

The portion of the budget above that is funded by direct state aid and below the BASE budget is called the GTB budget. This is funded by a combination of special education revenue from the state, state HB

124 block grants, nonlevy revenue, and fund balance reappropriated. The total of these revenue sources was $66.9 million in FY 2005. The remining area of the GTB budget is funded with state GTB aid and property taxes.

Special education revenue ($32.3 million in FY 2005) reimburses districts for allowable costs associated with special needs children. Nonlevy revenues are revenues from taxes on oil, natural gas, and coal, and investment earnings and state HB 124 block grants. These revenues are distributed based on where the revenue was earned and are unrelated to the number of children in a district.

Beginning in FY 2002, HB 124 block grants are payments made by the state to districts to reimburse districts for revenue that now flows to the state. These revenues were motor vehicle taxes, taxes on financial institutions, and reimbursements from the state for legislated reductions in districts' business equipment property tax base in prior sessions. While HB 124 block grants are state appropriations to schools, they do not represent an infusion of new state money into district budgets, but rather replace money that used to be considered local revenue.

Reappropriated fund balances are unreserved general fund balances left over from the previous year (approximately $11.0 million in FY 2005). A district may hold in reserve at most an amount equal to 10.0 percent of its general fund budget, and must reappropriate the rest in the ensuing year.

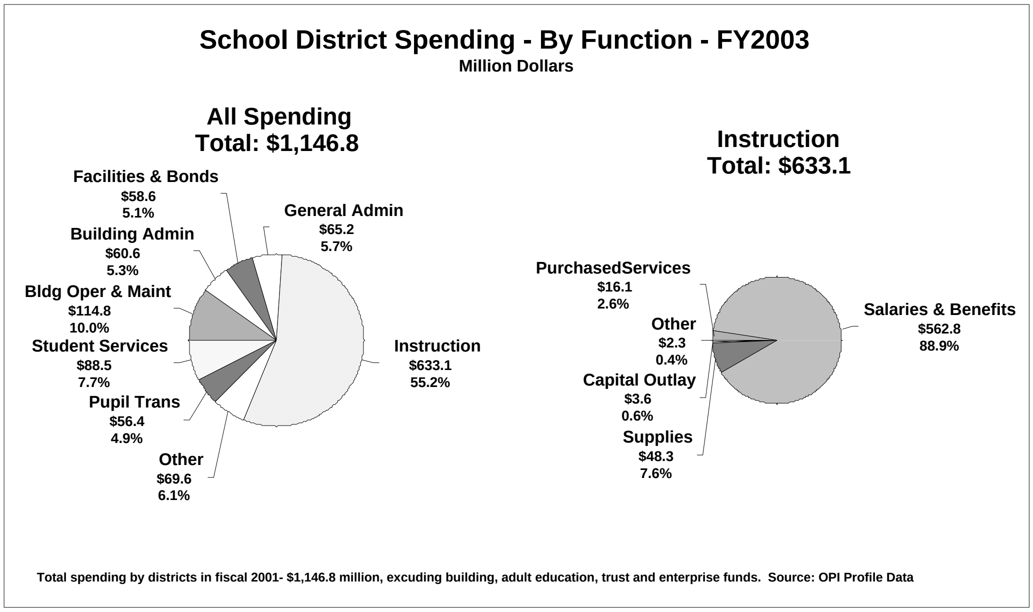
The remaining portion of the GTB area is funded by BASE property taxes ($108.7 million in FY 2005) and state GTB aid ($102.4 million in FY 2005). The amount of GTB aid a district receives depends on its relative wealth, as measured by taxable value per dollar of direct state aid. A relatively poor district's BASE mill levy generates local property taxes and a certain amount of GTB aid. The poorer the district, the more a BASE mill will be worth in terms of GTB aid. Statewide, the average ratio of GTB aid to BASE property tax revenue is a little greater than one. This may vary from zero for wealthy districts to over ten for poor districts.

Districts that budget above the BASE level must do so out of own-source revenue and tuition from other districts, parents, or the state. Some districts are able to use nonlevy revenue to fund a portion of this budget area, but the vast majority levy overBASE mills against property. OverBASE property taxes are $132.6 million in FY 2005, and are a growing source of revenue funding district general fund budgets. OverBase property taxes were only $34.8 million in FY 1994.

General Fund Spending by Function

Figure 9 shows spending by school districts by function. Instruction consumes approximately 55 percent of all spending by districts. Administration accounts for another 11.0 percent. The remaining functions include transportation, student services, spending on facilities and other expenses. These data do not include spending from the adult education fund, the building fund, trust funds, and enterprise funds.

Figure 9



A Short History of Legislative Changes in K-12 Funding

Figure 10 shows the impact of legislation on BASE aid entitlements since FY 1994.

Figure 10

School District Entitlements - FY 1994 - 2005

Component	FY1994 Actual	FY95-97 Actual	FY1998 Actual	FY1999 Actual	FY2000 Actual	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual
Bill Authorizing Entitlement Chang	HB667	HB22	HB47	HB47	SB100	HB4	HB121	HB121	SB424	SB424
Basic (Per District) Entitlements										
Elementary	$18,000	$17,190	$18,000	$18,000	$18,000	$18,540	$18,889	$19,244	$19,456	$19,859
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	1.9%	1.9%	1.1%	2.1%
High School	$200,000	$191,000	$200,000	$200,000	$200,000	$206,000	$209,873	$213,819	$216,171	$220,656
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	1.9%	1.9%	1.1%	2.1%
Per ANB Entitlements										
Elementary	$3,500	$3,343	$3,376	$3,410	$3,529	$3,763	$3,834	$3,906	$3,949	$4,031
Percent Change		-4.5%	1.0%	1.0%	3.5%	6.6%	1.9%	1.9%	1.1%	2.1%
High School	$4,900	$4,680	$4,726	$4,773	$4,821	$5,015	$5,109	$5,205	$5,262	$5,371
Percent Change		-4.5%	1.0%	1.0%	1.0%	4.0%	1.9%	1.9%	1.1%	2.1%
Per ANB Decrements										
Elementary	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
High School	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50
Per ANB Decrement Stop Loss										
Elementary ANB	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
High School ANB	800	800	800	800	800	800	800	800	800	800
GTB Guarantee Ratio	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%
Base Budget Components										
Direct State Aid	40.0%	40.0%	40.0%	40.0%	41.1%	44.7%	44.7%	44.7%	44.7%	44.7%
Guaranteed tax base aid	40.0%	40.0%	40.0%	40.0%	38.9%	35.3%	35.3%	35.3%	35.3%	35.3%
Special Ed to Districts	$28,533,557	$28,916,427	$28,532,882	$28,724,419	$30,049,664	$30,323,178	$30,030,295	$30,909,484	$30,940,660	$32,320,398

Bill and session year: HB667, 1993; HB22, Nov SS,1993; HB47, 1997; SB100, 1999; HB4,May SS,2000; HB121, 2001; SB424, 2003.

The level of entitlements under HB667 was in operation for FY 1994 only. The legislature then passed HB22 during the special session of 1993 and cut entitlements by 4.5 percent for FY 1995 through FY 1997. On average statewide, ANB was increasing in these years.

HB47 was passed by the 1997 legislature and raised per-ANB entitlements beginning in FY 1998 by 1 percent per year, and the basic entitlement in FY 1998 by 4.7 percent.

SB 100 was passed by the 1999 legislature and increased per-ANB entitlements by 1 percent for high schools and by 3.5 percent for elementary schools in each year of the 2001 biennium. The direct state aid percent was raised from 40.0 percent to 41.1 percent in FY 2000 and to 41.8 percent in FY 2001. SB 100 also increased special education funding by approximately $1.5 million per year.

Then in special session in May 2000, HB 4 further raised the per-ANB entitlements in FY 2001 by 3.0 percent for both elementary and high school, and raised the direct state aid percent to 44.7 percent.

During the 2001 legislative session, HB 121 raised entitlements by 1.88 percent in FY 2002 and by an additional 1.88 percent in FY 2003. In addition, SB 390 created a new flexibility account from which districts could spend for nearly the same purposes as the district general fund. The legislature funded the district flexibility accounts with $5.0 million in state general fund dollars. This was reduced to $4.3 million in the August 2002 special session.

During the 2003 legislative session, SB424 raised entitlements by 1.1 percent in FY 2004 and by 2.1 percent in FY 2005. In addition, entitlements were tied to inflation increases beginning in FY 2006. The inflation factors for FY 2006 and FY 2007 are 2.1 percent and 2.19 percent respectively.

In June 2004, District Court Judge Sherlock declared the current system of K-12 funding unconstitutional, stating it was not based on “educationally relevant factors”. The decision also concluded that K-12 education is under-funded. The decision was upheld by the Montana Supreme Court in November 2004. The state was given a deadline of October 2005, to comply with the court findings. The 2005 Legislature is tasked to resolve this issue.

Special Education

The state will pay approximately $36.5 million in FY 2005 in special education grants and reimbursements to districts and special education cooperatives. Special education cooperatives are groups of districts offering special education services. Districts receive about 95.0 percent of this money in their general funds and spend it for services to children with various disabilities or impairments. The remainder flows to special education cooperatives that provide special education services to its members. The disabilities range from speech-language impairments and physical impairments to multiple disabilities.

In FY 2003, districts and coops spent $65.7 million in state and local contributions and $21.5 million in federal contributions on the allowable costs associated with the education of impaired students. Allowable costs are defined by the state, which provides grants for special education instruction and related services (70 percent). State reimbursements (25 percent) are made to schools with extraordinary special education costs. As costs have risen, the amount of reimbursements has also risen. The remaining 5 percent is distributed to special education cooperatives to cover costs related to travel and administration.

The proportion of the total state appropriation distributed in the form of reimbursement for disproportionate costs grew both in total dollars and in the number of districts receiving reimbursement for disproportionate costs through FY 2001. The funding for disproportionate reimbursement was revised in FY 2002 to hold constant the proportion of funds distributed under reimbursement for disproportionate costs and shift funding back to instructional and related services block grants. Today, any increase in funds distributed for purposes of reimbursement of disproportionate costs is due to an increase in overall appropriations for special education.

The state special education grants and reimbursements flow to district general funds and are incorporated in calculating a district's maximum and BASE general fund budget limits. For each dollar increase in district receipts of state special education dollars, the maximum budget of the district increases by $2.00 and the BASE budget increases by $1.40. Increases in special education receipts by districts also increase the state GTB aid paid to a district, since GTB aid depends on the level of the BASE budget.

Special education students were about 12.8 percent of the student population in FY 2003. Enrollments of special education students grew by close to 2 percent per year between FY years 1991 and 1994, but growth has been less than 1 percent since then. A new state funding system was put in place in FY 1994 that granted districts state special education dollars based on the number of ANB in the entire district. The old system had granted such dollars based on the number of identified special education students in each district.

The amount the state appropriates in special education grants to districts and cooperatives remained between $32.0 and $33.0 million between FY 1989 and 1999, but has risen to $36.5 million in FY 2005. Districts and coops spent $40.9 million in FY 1990 for special education programs and $87.2 million in FY 2003, an annual growth rate of 6.0 percent per year. The state share of these costs has fallen commensurately and the local share of special education costs has risen from $3 million in FY 1990 to $31 million in FY 2003.

Districts spend more on special education students than regular students. Spending for special education students was 164.0 percent of spending for regular students in FY 2003, and that percentage was up from 161.0 percent in FY 1993.

Voting Rules

Many of the decisions regarding the level and funding of general fund budgets must by law be referred to district voters. Beginning in FY 2001, the general fund voting provisions for districts adopting a general fund budget between the BASE and the maximum budget limits were amended to require voter approval for an increase in overBASE property tax revenue. Previous law had required a vote in order to increase ensuing year budgets above current year budgets regardless of the property tax revenue consequences. Under the new law, if an increase in budget authority can be funded without increasing overBASE property taxes revenue, the budget increase does not require voter approval. A 4 percent limitation on annual budget growth, or on annual budget growth per ANB, was in effect until July 1, 2001. HB 164, passed during the 2001 legislative session eliminated the growth cap, and districts may now increase their general fund budget by any amount up to the maximum with voter approval.

The 1999 legislature also changed the budgeting rules for districts with declining enrollments. General fund budget limitations were amended for districts that are: 1) budgeting between the BASE and maximum budgets; and 2) have declining ANB populations. If ANB declines less than 30.0 percent and the district's current year adopted budget exceeds the district's ensuing year maximum budget, the district may adopt a budget for the ensuing year that is the greater of the current year budget or the ensuing year's budget, subject to voter approval. The district may not exceed its maximum budget limit for more than five consecutive years.

If ANB declines by 30.0 percent or more and the district's current year adopted budget exceeds the ensuing year's maximum budget, the district must reduce the range between the district's current year budget and the ensuing year's maximum budget by:

- 20.0 percent in the first year
- 25.0 percent in the second year
- 33.3 percent in the third year
- 50.0 percent in the fourth year
- the remainder of the range in the fifth year

Districts that have general fund budgets exceeding the maximum budget must annually ask voters to approve the part of the budget in excess of the maximum. However, the budget adopted for the current year may not exceed the lesser of: 1) the adopted budget for the prior year; or 2) the district current maximum budget plus the over-maximum budget amount adopted for the prior year.
If a district's budget in the current year is below the BASE budget in the upcoming year, either due to ANB increases or legislated increases in entitlements, district trustees must increase the budget to the BASE budget level and no voter approval is required.

Effective in FY 2000, the regular school and trustee election date is changed to the first Tuesday after the first Monday in May. Only one levy election may be held in a calendar quarter.

DISTRICT TRANSPORTATION BUDGET

Montana law provides for two types of public school transportation - a publicly funded school bus program and/or individual transportation contracts with a student's parents or guardian. School bus transportation may be provided directly by the school district, or the trustees of a district may contract with a private contractor to provide bus transportation for eligible students.

The trustees of a district may provide school bus transportation to any pupil of a public or private school. However, the district will receive reimbursement from the state and county only for eligible transportees. An eligible transportee must:

- Be a resident of the State of Montana and attend a public school in Montana
- Be between the ages of 5 and 21 or be a preschool child with disabilities between the ages of 3 and 6
- Reside <u>at least 3 miles</u> from the nearest operating public elementary school or high school
- Be considered to reside with his or her parent or guardian, who maintains legal residence within the boundaries of the district furnishing the transportation, regardless of where the eligible transportee lives when attending school

The trustees of a district are not required by law to provide pupil transportation unless directed to do so by the county transportation committee. However, if the trustees decide to furnish transportation for any eligible transportee, they must ensure transportation for all eligible transportees.

On-Schedule Costs

A district's transportation budget is funded by receipt of state reimbursements for on-schedule costs, an amount that is matched by the county, and by district revenues, which fund "over-schedule" costs.

On-schedule costs are defined by the legislature and are expressed on a per mile basis. The per mile schedule costs depend on the size of the bus. Before FY 2004 these costs were adjusted depending on the extent that the bus is filled with riders. On-schedule costs are determined as the product of the per mile amount times miles traveled (including miles within the 3 mile zone) times 180 days. The state general fund reimbursement is one-half this amount or one-half the amount a district budgets for transportation, whichever is less. The county must match the state reimbursement amount with funds derived from the county school transportation fund. County revenues in the county transportation fund include non-levy revenue and property tax revenues.

District over-schedule costs are the difference between the transportation fund budgeted amount and state and county on-schedule reimbursements. Some districts are able to provide transportation services for the on-schedule amount, but the vast majority of districts incur costs above the on-schedule amount. On-schedule costs vary between 95 cents per mile per day and $1.80 per mile per day. Larger districts generally have higher per mile costs than small districts. Small districts have generally higher costs per ANB, and per ANB per mile, than do large districts.
Districts fund the over-schedule amount through a combination of non-levy revenues and district property taxes. District trustees may budget the over-schedule amount at their discretion and are not required to ask voters to approve that level. For on-schedule costs, the county superintendent determines the required property tax requirements, and the county commissioners set the required levy.

In FY 2003, total district spending on transportation was $48.8 million. On schedule costs were $20.8 million, of which half was paid by the county and half by the state.

Some districts budget for transportation but do not engage in providing transportation. These districts do not own buses and do not contract with a private bus company. In many cases, these districts coordinate their transportation needs with a nearby district. For instance, many elementary districts coordinate with their high school district, if the high school is in the same community.

Approximately one-third of the bus routes in Montana are contracted with private bus companies. These contracts are usually observed in the larger districts. Some small districts, however, also contract and may contract with many private individuals to provide bus service. Contracts in the larger districts are often multi-year, and some provide inflation adjustments and/or gas price adjustments. The contracts are usually on a per mile basis or on a yearly basis for a set number of miles per day. The bus company usually must provide specially equipped buses and bus aides if necessary.

School districts may also contract with parents or guardians of pupils in need of transportation. Under section 20-10-142, MCA, the state and county must reimburse a district that makes a contract with a parent or guardian for transportation of eligible transportees at a minimum rate of 25 cents per mile per day. The district may contract with a parent at a higher rate, and in fact federal rules regarding transportation of special needs students require that parents be reimbursed by the district at 29 cents per mile. Allowable miles are determined by multiplying the distance between the eligible transportee's residence and school, minus 6 miles. The total reimbursement is limited to one round trip per day. Districts with parents who transport their children to the nearest bus stop on an approved route are also reimbursed 25 cents per mile per day, with 3 miles deducted from the distance between the home and the bus stop.

RETIREMENT FUND

School districts employing personnel who are members of the teachers retirement system or other defined retirement systems must establish retirement funds from which to pay the districts' contributions to the systems. The amount each district must pay into the retirement fund is set by statute and is a set percentage of the employee's annual wage, and includes payments to the retirement system, social security, Medicare and unemployment insurance. Thus the spending requirements in the retirement fund increase with increases in wages and in the number of employees. Also, because teacher wages are paid from the district general fund, the level of spending in the retirement fund is closely related to the level of spending in the general fund. Retirement costs associated with salaries in other state and federal funds are also paid for out of the district retirement fund.

The retirement fund is managed at the county level. The county collects the money and deposits it in district retirement accounts. The district then pays for the retirement contributions. The county retirement fund is funded by nonlevy revenue, state GTB, and local property taxes. A county is eligible for GTB if its taxable value per ANB is less than 121.0 percent of the state average taxable value per ANB. The amount of state GTB varies inversely with the value of a county's taxable property per ANB. Thus, less wealthy counties receive more GTB aid than do relatively more wealthy counties.

The retirement fund has been a nonvoted fund. That is, the county superintendent determines the amount of the levy, and the county commissioners fix and set the levy without putting the issue before the voters.

The total payment to districts by counties in FY 2003 was $96.4 million. The state GTB payment to counties for retirement purposes was $21.8 million in FY 2003.

Beginning in fiscal 2005, retirement costs for federal employees must be paid out of federal funds, not state or local funds, with exceptions for employees funded by a special education cooperative inter-local fund, the districts' food services fund and any other state or local fund.

DEBT SERVICE FUND

School districts utilize a debt service fund to make debt service payments on bonds that have been sold to investors. The sale of bonds may be for purposes of capital construction, purchase of certain equipment or vehicles, refinancing past bond issues, or for funding a judgment against a district. SB 424 (2003 session) expanded eligibility for the program to those districts with bonds that were sold before July 1, 1991.

Under a formula in statute, a school district's facility reimbursement is a set dollar amount per ANB in the district, which varies depending whether the student is in grades K-6, 7-8 or in high school. The K-6 entitlement is $300 per ANB, the 7-8 entitlement is $370 per ANB and the high school entitlement is $450 per ANB. In order for a school to receive a capital outlay reimbursement from the state, it must be

GTB-eligible. Its taxable value per ANB must be below 140.0 percent of the state average taxable value per ANB. If a district is GTB-eligible, its school facility reimbursement is the lesser of its actual debt service expenditures or the calculated reimbursement. When the total statewide available reimbursements required exceed the amount available in the state appropriation, the reimbursements are prorated to the eligible districts.

The number of districts receiving school facility payments has grown from 14 districts in FY 1994 to 157 districts in FY 2004. The state appropriation has grown from $1.0 million in FY 1994 to $8.3 million in FY 2004. In the 1990's, the growth in demand by districts for school facility payments has outstripped the growth in the level of the state appropriation. In FY 1994, the pro-rata percentage was 90.0 percent and in FY 1998 it was 79.0 percent. Because of the increase in the state appropriation in FY 2004, the pro-rata percentage was at 100 percent.

The legislature passed SB 457 during the 2001 legislative session which allowed districts to use up to 25.0 percent of their federal impact aid revenues for debt service. Federal impact aid revenues flow mostly to districts on Indian reservations.

TOTAL SPENDING ON K-12

The figure below shows historical total spending by districts on K-12 education between 1991 and 2003. Also shown is the state, federal and local sources of revenue. Equalized state revenue is revenue received by districts that is based on number of children in the district, or the costs of delivering services to children in the district. Non-equalized state revenue is revenue that is distributed without respect to the number of children in the district. These revenues include HB 124 block grants and the remaining property tax reimbursements (HB20/SB417). Federal revenues include those that pass through OPI as well as direct federal payments to districts (impact aid monies). Local sources are property taxes, nonlevy revenue and cash reappropriated.

As shown in the figure, total spending on K-12 grew 55.0 percent between 1991 and 2003 while inflation was 36.0 percent. In the same period, state equalized funding grew 22.9 percent, total state funding grew 38.4 percent, federal funding grew 162.3 percent, and local sources grew 56 percent.

Figure 11
Historical K-12 Spending Data, by Source of Spending
1991-2003

Fiscal Year	Equalized State Funding	Nonequalized State Reimbursements	Total State Funding	Local	Federal	Total Spending	Inflation 2003 Dollars
1991	410,068,339	6,194,034	416,262,373	261,244,899	62,292,449	739,799,721	73.5
1992	410,683,944	6,194,034	416,877,978	288,276,952	67,504,393	772,659,324	75.9
1993	449,284,428	6,194,034	455,478,462	280,496,495	71,248,888	807,223,844	78.3
1994	449,022,117	6,194,034	455,216,151	316,568,353	78,593,987	850,378,491	80.3
1995	454,407,079	6,194,035	460,601,114	322,033,178	82,291,327	864,925,619	82.6
1996	456,761,270	14,107,524	470,868,794	331,652,997	85,761,667	888,283,458	84.8
1997	461,430,512	14,107,524	475,538,036	356,982,459	87,510,909	920,031,404	87.3
1998	475,819,055	14,107,524	489,926,579	363,980,491	98,565,659	952,472,728	88.8
1999	463,136,715	14,107,524	477,244,239	392,463,959	106,952,451	976,660,649	90.4
2000	478,973,310	19,716,889	498,690,199	380,507,204	124,778,384	1,003,975,788	93.0
2001	504,920,062	43,932,391	548,852,453	386,035,173	123,577,327	1,058,464,953	96.1
2002	489,205,888	77,646,820	566,852,708	385,032,759	143,671,140	1,095,556,607	97.8
2003	504,044,202	71,967,152	576,011,354	407,450,946	163,400,823	1,146,863,124	100.0
CumulativeGrowth	22.9%	1061.9%	38.4%	56.0%	162.3%	55.0%	36.0%

Source: State data from SBAS, SABHRS; Federal Data and Total Spending from OPI Profile Data; Local data by difference

Equalized state funding are monies distributed on the basis of ANB or other edicationally relevant facor.
Non-equalized funding is HB 124 block grants, HB 20 and SB 417 reimbursements, that supplanted local revenues, and are not necessarily distributed on the basis of educationally relevant factors.

For information about the K-12 executive budget, please Legislative Budget Analysis, Volume 4, Section E, Office of Public Instruction.

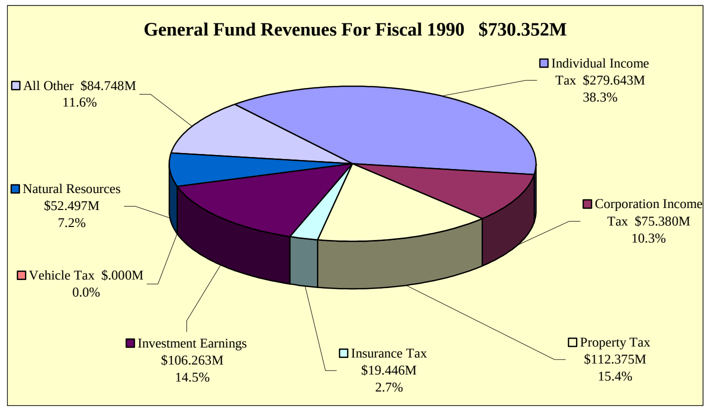
GENERAL FUND - HISTORICAL PERSPECTIVE

REVENUE HISTORY

The recent history of finances in the state of Montana has followed an upward trend. On both the revenue and expenditure side, Montana state finances have increased significantly.

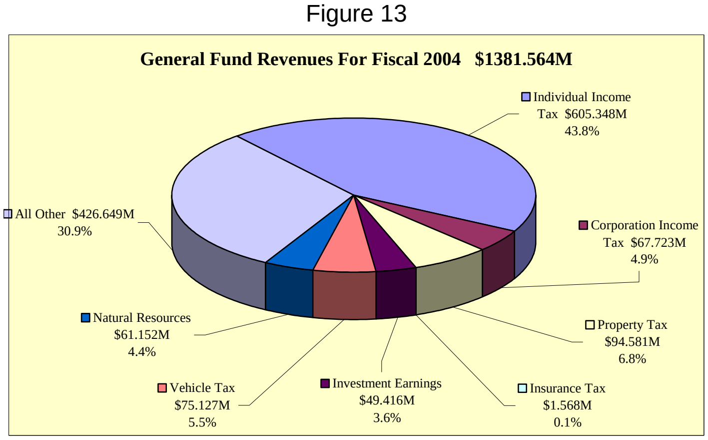
From FY 1990 through FY 2004, the relative importance of the revenue components has changed only slightly. In FY 1990 as now, the largest component of general fund revenue was collections from individual income tax. As shown in Figure 12, individual income tax made up 38.3 percent of total general fund revenues. Property tax collections were next, with collections amounting to 15.4 percent of all general fund revenues. Investment earnings follow, adding 14.5 percent of the collections to the revenue base.

Figure 12



In FY 2004, individual income tax collections increased slightly in terms of its relative importance to the general fund, now making up 43.8 percent of total general fund collections. Property tax collections are only 6.8 percent of general fund collections, while investment earnings fell in relative importance to only 3.6 percent of total revenues. Total general fund revenues are shown in Figure 13.

Figure 13



Over the 15-year period spanning from fiscal 1990 through FY 2004, revenues have increased substantially. General fund revenues during the period have increased by over $651.2 million, from $730.4 million in FY 1990 to $1,381.6 million in FY 2004. This represents an increase of more than 89.2 percent in nominal terms. In real terms, when adjusted for inflation, the change is over 42.8 percent. This rate of growth is significant and can be traced almost exclusively to the increases in individual income tax and property tax collections. Since FY 1996, individual income tax has increased by 25.1 percent, and the general fund portion property tax has decreased by 21.7 percent in real terms. Figure 14 depicts the cumulative increases of general fund revenues in both dollar and percent terms for the 15-year period.

EXPENDITURE HISTORY

General fund expenditures have also increased substantially since FY 1990. A portion of the increase is attributable to increased state spending due to inflationary pressures. Further increases can be explained by growth in human service caseloads, prison population, and average number belonging (ANB) increases.

Figure 14

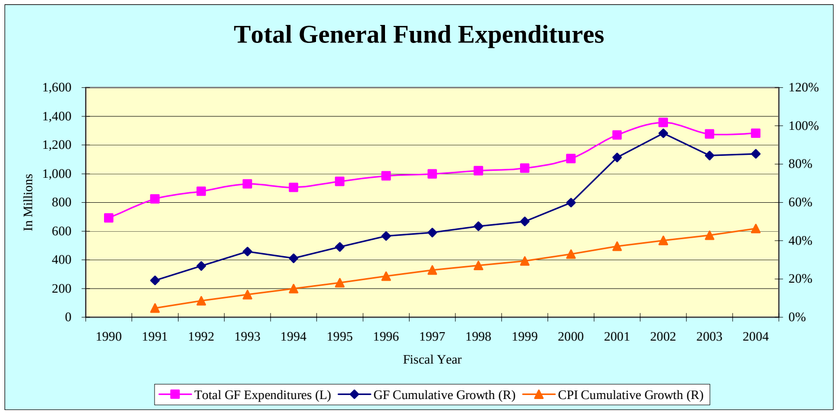


Figure 15

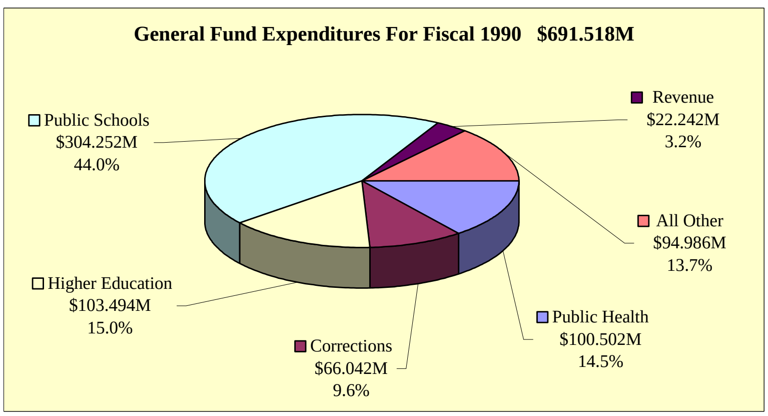
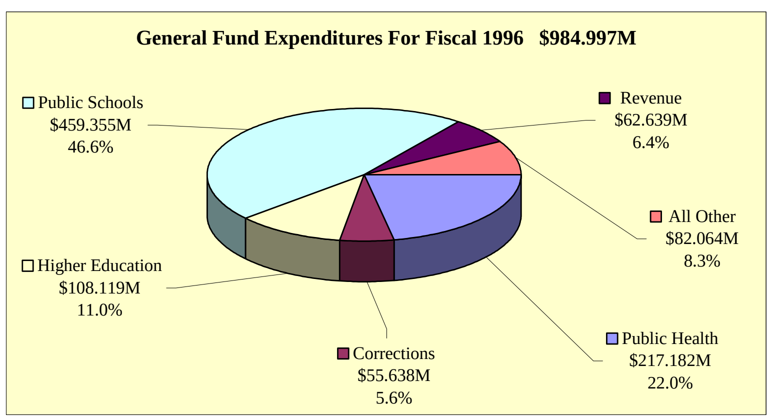


Figure 15 shows the general fund expenditure components for FY 1990, along with the dollars expended and the percent of total general fund spending. In all years, expenditures for public schools are the greatest portion of total general fund expenditures, consuming 44.0 percent of general fund dollars. In FY 1990, expenditures for higher education were the second highest area, utilizing 15.0 percent of general fund revenues. At that time, Public Health expenditures were only 14.5 percent of total general fund spending.

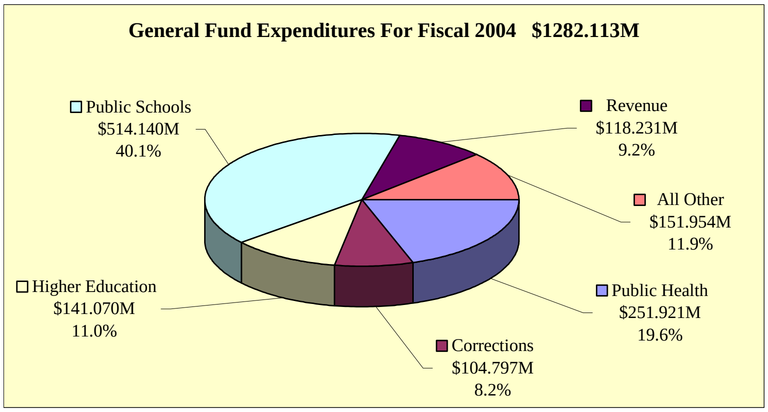
Figure 16



In FY 1996, the legislature reorganized public health entities, which moved health service related functions into one agency. Consequently, general fund expenditures for public health accounted for 22.0 percent of total general fund expenditures. The expenditures for higher education increased in the period between fiscal 1990 and fiscal 1996 by 4.5 percent and dropped to the third highest area in general fund terms. Public school funding was also increased in FY 1996. Consequently, general fund support for schools increased by 51.0 percent and account for 46.6 percent of total general fund expenditures. Figure 16 shows the FY 1996 general fund expenditures.

By FY 2004, public school support dropped in relative weight to the general fund support. As seen in Figure 17, public schools consumed 40.1 percent of available general fund dollars. Public health, the second largest consumer, expended 19.6 percent of the total general fund. Higher education share of general fund expenditures by FY 2004 was at 10.2 percent of the total.

Figure 17

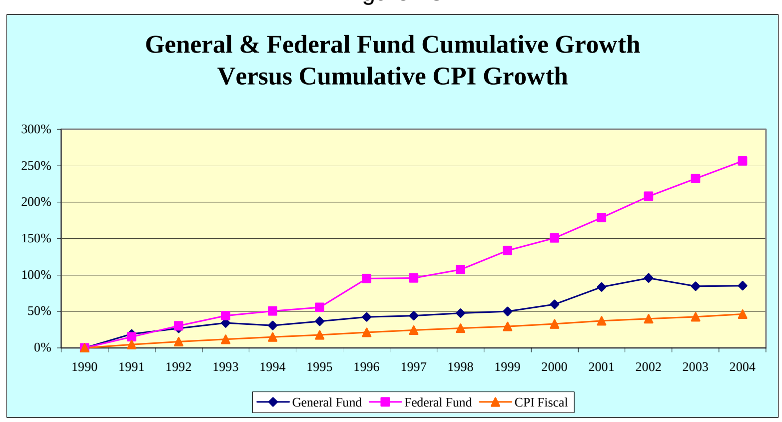


During the 8-year period between FY 1996 and FY 2004, total general fund expenditures have increased from $985.0 million to $1,282.1 million. This corresponds to a nominal increase of 30.2 percent but an increase in real terms of 9.7 percent. The greatest portion of this increase is seen in the three program area, public schools, public health, and higher education. Since FY 1996, public school expenditures have increased from $459.4 million to $514.1 million, an decrease of 8.5 percent in real terms. Public health expenditures have increased from $217.2 million to $251.9 million, decreasing over 4 percent in real terms. Higher education has experienced increases from $108.1 million to $141.1 million in the six years. This represents a 10 percent increase in real terms.

FEDERAL FUND EXPENDITURES

While general fund expenditures have increased cumulatively over 56.2 percent in real terms since FY 1990, federal funds have increased by 210.2 percent. Montana has become substantially more dependent upon federal funds to support its expenditures, as illustrated in Figure 18.

Figure 18



Annual growth for the general fund has been 4.5 percent in nominal terms over the 15-year period. Nominal annual growth in federal funds is 9.5 percent. The average annual nominal growth for both fund sources is 6.9 percent, or 4.1 percent when adjusted for inflation, as shown in Figure 19.

In Figure 20, the ratio of general fund to federal fund has changed significantly since FY 1990. Where federal funds paid for approximately 39.3 percent of state expenditures in FY 1990, they now support well over half.

Figure 19

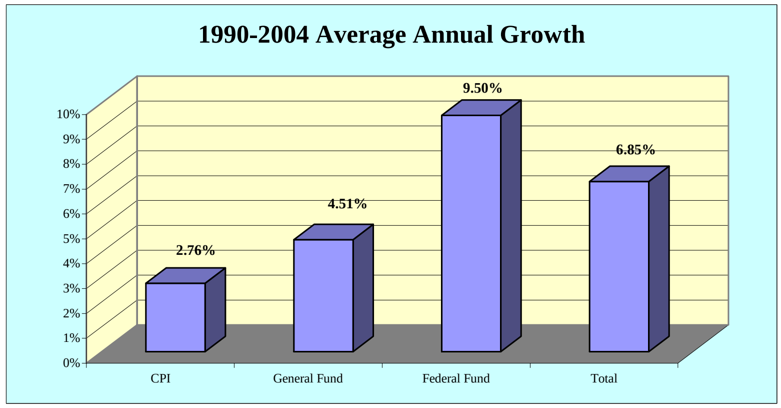
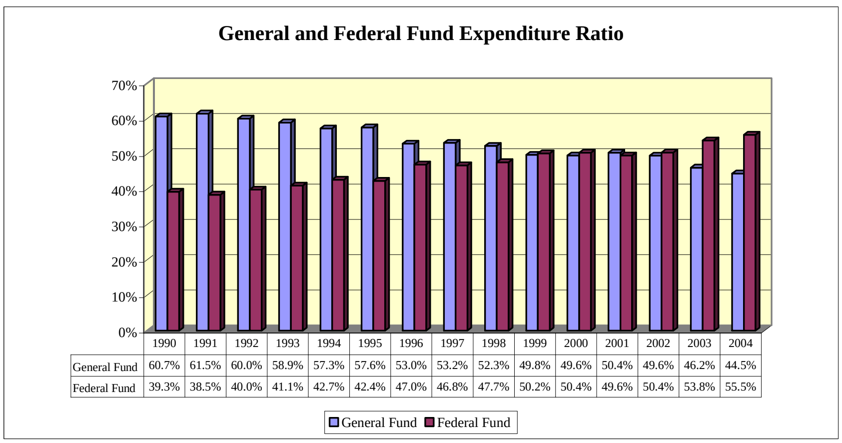


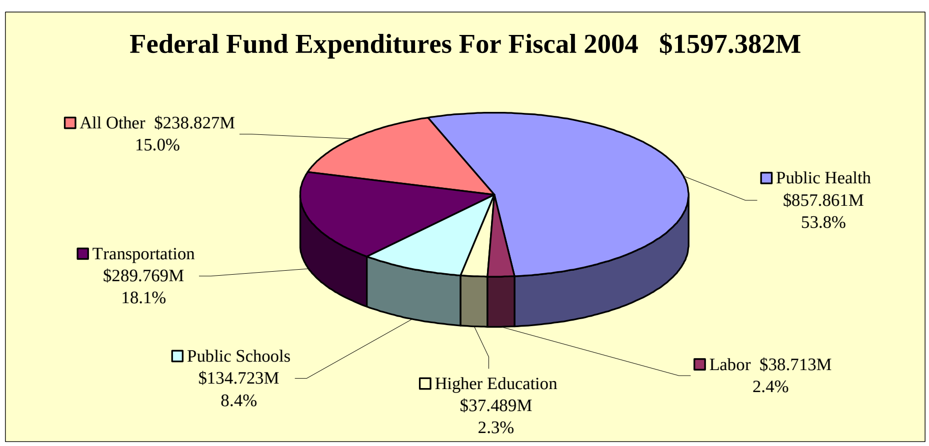
Figure 20



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General Fund	60.7%	61.5%	60.0%	58.9%	57.3%	57.6%	53.0%	53.2%	52.3%	49.8%	49.6%	50.4%	49.6%	46.2%	44.5%
Federal Fund	39.3%	38.5%	40.0%	41.1%	42.7%	42.4%	47.0%	46.8%	47.7%	50.2%	50.4%	49.6%	50.4%	53.8%	55.5%

The largest area of federal support goes to public health expenditures. In FY 2004, Montana received over $857.9 million in federal aid for public health programs. This corresponds to 53.8 percent of the federal funds received. Transportation received $289.8 million in federal aid or 18.1 percent of all federal funds, and public schools received $134.7 million or another 8.4 percent of the federal funds provided to Montana. Figure 21 presents the entire breakout of federal fund expenditures for FY 2002.

Figure 21



General fund revenues and expenditures and federal funds have all increased since FY 1990. Typically, the increases have surpassed inflation. The state has directed the increased revenues to all budgets, but the greatest increases, in dollar terms, have been expended in the largest budgets, public schools, public health, and higher education. Finally, Montana has grown increasingly dependent on federal funds to support these programs.

GENERAL FUND STATUS SHEET

The general fund status sheet (GFSS) is analogous to your personal checkbook register. Your bank balance fluctuates either up or down as you make deposits and expend monies. Similarly, the general fund status sheet simply measures the state's financial condition as the legislature adjusts revenue flows (taxation policies) and appropriates funds (authorizes expenditures).

The general fund status sheet is prepared during legislative sessions in order to provide the legislature with a current projection of the financial status of the general fund account. This budgetary status sheet is usually prepared at least once a week and serves as a "work in progress" tool to assist the legislature in balancing the state's general fund budget. Financial information on revenue estimates, taxation legislation, and appropriation measures are the basic components of the general fund status sheet. The status sheet is usually prepared on Fridays and distributed either late Friday night or early Saturday morning.

The starting point for the status sheet is the projected general fund balance *before* any legislative action has been taken. This balance is based on revenue estimates adopted by the Revenue and Transportation Interim Committee (RTIC) on November 16, 2004, agency base budgets for fiscal 2004 as assumed for fiscal 2006 and 2007, LFD estimates for all statutory appropriations, fund balance adjustments, transfers, and the Executive Budget recommendations for supplemental appropriations.

The status sheet also shows any proposed legislation that has general fund fiscal impact (revenue or disbursement). These bills are posted to the document after any committee takes positive executive action. Subsequent amendments to bills are also incorporated into the document once they have been adopted by a committee. The projected ending balance *after* legislative action to date is provided to show the legislature a "point in time" status of the general fund account.

The status sheet also includes all general fund bills that could change the level of spending for state agencies. These bills, categorized as "potential appropriations," result from legislation that changes the duties and functions of state agencies without making a corresponding appropriation adjustment. These adjustments are considered by the House Bill 2 Conference Committee toward the end of the legislative session. These "potential" spending changes are *not* included in the projected ending balance until *after* legislative action has been taken.

Attached to the status sheet is a summary of budget development by joint appropriation subcommittees. These summaries show the budgets as approved by the subcommittees, as compared to the base budget for fiscal 2004. Both general fund and all funds detail are provided.

The information shown on the next page is an example of what the first general fund status sheet will look like.

LFD staff are available to assist legislators in interpreting the general fund status sheet.

Legislative Fiscal Division
General Fund Status Sheet

2005 Biennium (Figures In Millions)

12/21/2004 10:04 AM 90 th Legislative Day Status #16

Fiscal Condition Without Legislative Action					
Beginning Fund Balance(Without Feed Bill & Supplementals)			$27.167	+	
Revenue & Transportation Committee Revenue Estimates			2,527.919	+	
Base Appropriations Using Fiscal 2002 + Statewide Adjustments			(2,407.669)	-	
Estimated Reversions and 2005 Legislative Session			1.492	+	
Estimated Statutory Appropriations			(260.118)	-	
Estimated Transfers			(31.780)	-	
Estimated Adjustments & Residual Transfers			0.000	+	
Ending Fund Balance Without Legislative Action				=	**($142.989)**
Summary of Legislative Action					
Revenue Adjustments					
HJR 2 Revenue Estimates				-	**(5.751)**
House Taxation		6.777			
House Floor		No Change			
Senate Taxation		(12.528)			
Senate Floor		No Change			
Conference		Not Required			
Revenue Legislation (See Table 1 For Detailed Bill Listing)				+	**135.706**
Appropriation Adjustments					
HB0002 General Appropriations Act		Present Law	New Proposal	+	**87.908**
General Government & Transportation		(14.153)	4.242		
Health & Human Services		(26.887)	25.921		
Natural Resources & Commerce		(0.092)	5.407		
Corrections & Public Safety		(10.601)	11.757		
Education		79.674	12.640		
Totals		$27.941	$59.967		
Other Appropriation Legislation (See Table 1 For Detailed Bill Listing)				-	**(28.653)**
Total Legislative Action				+	**$189.210**
Fiscal Condition With Legislative Action		**($142.989)**	+ **$189.210**	=	**$46.221**

HB152 increases the general fund emergency statutory appropriation from $12 million to $16 million. Since the base statutory appropriatic does not include any amount for emergencies, the $16 million is not included in the above projected balance.

Figure 22

Legislative Fiscal Division
General Fund Status Sheet

2005 Biennium (Figures In Millions)

12/21/2004 10:04 AM 90 th Legislative Day Status #16

Table 1 - Detail of Legislative Action

Bill Number	Short Description of Proposed Legislation	Revenue Impact	Appropriation Impact	Potential Impact *	Total Impact
	Total of Legislative Action	**$135.706**	**($28.653)**	**($1.212)**	**$105.841**

* Potential appropriations result from legislation changing the duties and functions of state agencies without a corresponding appropriation adjustment. These adjustments will be considered in House Bill 2 conference committee towards the end of the legislative session.

Figure 23

INDEX TO OTHER LFD BUDGET REFERENCE DOCUMENTS

In addition to the *Legislative Budget Analysis – 2007 Biennium* (Volumes I through IV), there are several other reference documents that legislators and other interested parties can use as a source of information concerning budget and other fiscal matters. A limited number of reports of past biennia are available for reference in the LFD office (photo copies of pages of interest can be made). Training publications and brochures are available for distribution and on the LFD website. Check with an LFD staff member for assistance (see staff list on page xiii).

PREVIOUS REPORTS

The *Legislative Budget Analysis* is prepared at the beginning of each biennium and the *Legislative Fiscal Report* is published at the end of each session. The latter is a record of legislative actions that resulted from the enactment of House Bill 2 and other appropriation legislation, as well as revenue estimation and discussion of other fiscal issues.

- The *Legislative Budget Analysis* for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library
- The *Legislative Fiscal Report* for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library. Early versions of this report were titled the *Appropriations Report*

TRAINING PUBLICATIONS

Training material prepared by the LFD include the following:

- *Understanding State Finances and the Budgeting Process* (A Reference Manual for Legislators) is a helpful guide for persons wanting more detailed information concerning fiscal matters
- *HB 2 the Barbarian* (How to Make HB 2 Implement Public Policy as Determined by the Legislature) describes the intricacies of developing the general appropriations act

FISCAL POCKET GUIDES

A variety of brochures have been prepared to provide summary information concerning select topics important to legislators and other interested parties.

- State Financial and Budgeting Structure
- General Fund Fiscal 2004
- State Employees
- Higher Education Funding
- Medicaid
- Montana Highway Funding
- Pertinent State Statistics
- Resource Indemnity Trust
- TANF (temporary assistance to needy families)
- Montana's Tobacco Settlement
- K-12 Education Funding
- Bed Tax
- Insurance Tax & License Fee
- Individual Income Tax
- Tobacco Tax
- Video Gambling Tax
- Cigarette Tax
- Wine Tax
- Liquor Excise Tax
- Beer Tax
- Corporation Income Tax
- Property Tax
- Coal Tax
- Coal Trusts

The LFD would welcome suggestions for other possible topics for pocket guides.

AGENCY BUDGET COMPARISONS BY FUND

INTRODUCTION

This section provides a comparison, by agency, of the Governor's executive budget recommendations for HB 2 as compared to the 2005 biennium. For each fund type, a table shows the comparison by agency. Also included for each fund type is a pie chart showing the amount and percent for each fund by major program area, and a bar graph that shows the percentage increase by major program area. The narrative describes the primary reasons for budget changes, by fund type.

GENERAL FUND

As defined in 17-2-102, MCA, the general fund "accounts for all financial resources except those required to be accounted for in another fund." The general fund provides funding for the general operations of state government.

In Figure 1, general fund increases by $227.9 million, or 9.9 percent. Five agencies account for 84 percent of the increase.

- o The Department of Public Health and Human Services - $83 million. Major increases are due to:
  - Caseload and service increases, most notably in Medicaid programs
  - A reduction in the share of Medicaid expenditures funded by the federal government
- o The Department of Revenue - $33.9 million. This increase is due primarily to one-time initiatives by the executive to:
  - Pay off all of debt of the Integrated Revenue Information System (IRIS) - $16 million
  - Completion of the previous revenue system (POINTS) - $4 million
  - Development of a property tax replacement system - $5.5 million
  - Agricultural land re-evaluation system development - $1.4 million
- o K-12 Education - $28.2 million. Increases are due primarily to inflationary adjustments, as well as increases in several programs, including special education, school facilities, gifted and talented, and vocational education
- o Corrections - $24.1 million. These increases are due to:
  - Provision of contract beds and probation and parole officers to address additional populations
  - Overtime
- o Higher Education - $22.4 million. The executive recommends two major adjustments that cause most of the increase:
  - An initiative of just under $10 million for the Shared Leadership project, which seeks to position the Montana University System as an economic development driver, and for equipment in the vocational-technical schools
  - An increase in the percentage support of general fund for various operational cost increases in order to reduce potential tuition increases

Figure 1

General Fund Comparison

05 Biennium Versus Executive Budget 07 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2004	Adjusted Authorized Fiscal 2005	Total Exec. Budget Fiscal 2006	Total Exec. Budget Fiscal 2007	Total Adjusted Fiscal 04-05	Total Exec. Budget Fiscal 06-07	Difference 07 Biennium - 05 Biennium	% Change 05 Biennium 07 Biennium
1104	Legislative Branch	$7,055,185	$9,051,073	$8,360,892	$8,395,184	$16,106,258	$16,756,076	$649,818	4.03%
2110	Judicial Branch	31,031,278	27,510,035	35,910,033	34,784,110	58,541,313	70,694,143	12,152,830	20.76%
3101	Governor's Office	4,226,670	4,591,342	4,832,589	4,770,906	8,818,012	9,603,495	785,483	8.91%
3202	Commissioner Of Political Practices	309,317	323,573	329,973	317,725	632,890	647,698	14,808	2.34%
3401	State Auditor's Office	0	0	0	0	0	0	0	
3501	Office Of Public Instruction	514,085,061	514,892,443	525,387,352	531,801,401	1,028,977,504	1,057,188,753	28,211,249	2.74%
4107	Crime Control Division	1,623,752	1,650,735	1,720,172	1,717,425	3,274,487	3,437,597	163,110	4.98%
4110	Department Of Justice	18,497,606	18,970,678	21,136,103	19,622,668	37,468,284	40,758,771	3,290,487	8.78%
5101	Board Of Public Education	141,309	163,981	167,292	165,348	305,290	332,640	27,350	8.96%
5102	Commissioner Of Higher Education	140,778,703	137,207,301	150,226,813	150,177,464	277,986,004	300,404,277	22,418,273	8.06%
5113	School For The Deaf & Blind	3,408,893	3,507,788	3,984,836	3,952,131	6,916,681	7,936,967	1,020,286	14.75%
5114	Montana Arts Council	286,250	290,354	356,356	290,905	576,604	647,261	70,657	12.25%
5115	Montana State Library	1,497,806	1,716,629	1,847,093	1,560,479	3,214,435	3,407,572	193,137	6.01%
5117	Montana Historical Society	1,715,418	1,766,280	1,943,471	1,868,562	3,481,698	3,812,033	330,335	9.49%
5301	Department Of Environmental Quality	3,053,744	3,163,556	4,129,497	4,096,940	6,217,300	8,226,437	2,009,137	32.32%
5603	Department Of Livestock	521,303	532,960	552,314	550,398	1,054,263	1,102,712	48,449	4.60%
5706	Dept Of Natural Resources & Conservation	16,825,529	17,494,723	21,586,871	21,329,824	34,320,252	42,916,695	8,596,443	25.05%
5801	Department Of Revenue	29,279,359	27,069,620	54,485,841	35,743,558	56,348,979	90,229,399	33,880,420	60.13%
6101	Department Of Administration	3,363,958	3,550,361	8,014,829	3,893,164	6,914,319	11,907,993	4,993,674	72.22%
6102	Appellate Defender	186,615	186,847	200,602	197,014	373,462	397,616	24,154	6.47%
6201	Department Of Agriculture	598,135	628,231	613,907	575,149	1,226,366	1,189,056	(37,310)	-3.04%
6401	Department Of Corrections	104,019,287	106,628,700	117,303,917	117,480,152	210,647,987	234,784,069	24,136,082	11.46%
6501	Department Of Commerce	1,565,311	1,584,025	1,625,527	1,624,909	3,149,336	3,250,436	101,100	3.21%
6602	Department Of Labor & Industry	1,155,525	1,198,407	1,826,079	1,848,340	2,353,932	3,674,419	1,320,487	56.10%
6701	Department Of Military Affairs	4,111,558	4,194,772	4,375,999	4,366,941	8,306,330	8,742,940	436,610	5.26%
6901	Dept Of Public Health & Human Services	248,448,589	272,062,610	296,181,383	307,367,803	520,511,199	603,549,186	83,037,987	15.95%
	Total	$1,137,786,161	$1,159,937,024	$1,267,099,741	$1,258,498,500	$2,297,723,185	$2,525,598,241	$227,875,056	9.92%

Figure 2

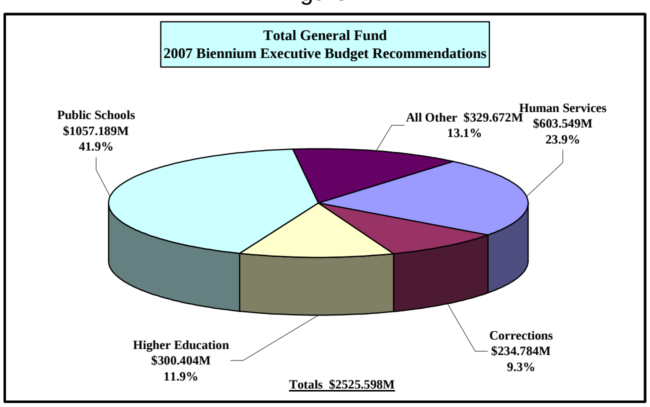
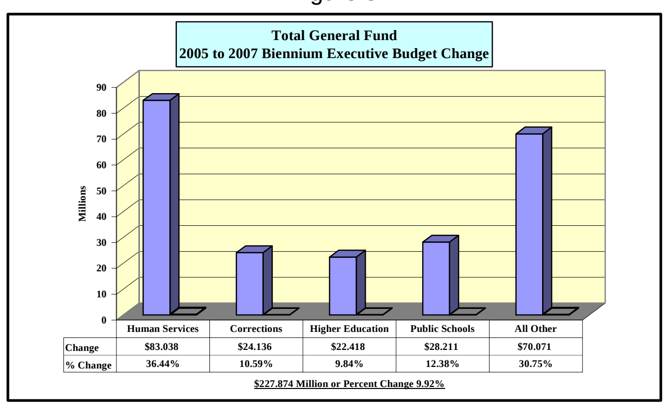


Figure 3



STATE SPECIAL REVENUE

As defined in 17-2-102, MCA, the state special fund "consists of money from state and other non-federal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money from other non-state or non-federal sources that is restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation."

As shown in figure 4, state special revenue increases by $115.0 million, or over 11.5 percent. Three agencies account for over 85 percent of this total increase: 1) the Montana Department of Transportation (MDT); 2) the Department of Public Health and Human Services (DPHHS); and 3) the Department of Environmental Quality.

- The increase in MDT of $52 million is due to use of highways state special revenue account to match anticipated federal funds, as well as bonding revenue for the Highway 93 project
- The increase in DPHHS is $36.8 million and is primarily due to the proposed continuance of tobacco settlement proceeds from tobacco control and prevention to fund other DPHHS programs, and of the hospital provider tax used to match federal funds for rate enhancement
- Increases in the Department of Environmental Quality of $8.8 million are primarily due to the provision of reclamation and remediation bonding authority

Figure 4

State Special Revenue Fund Comparison

05 Biennium Versus Executive Budget 07 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2004	Adjusted Authorized Fiscal 2005	Total Exec. Budget Fiscal 2006	Total Exec. Budget Fiscal 2007	Total Adjusted Fiscal 04-05	Total Exec. Budget Fiscal 06-07	Difference 07 Biennium - 05 Biennium	% Change 05 Biennium 07 Biennium
1104	Legislative Branch	$2,091,476	$1,966,601	$2,418,296	$1,794,996	$4,058,077	$4,213,292	$155,215	3.82%
1112	Consumer Council	1,297,083	1,348,733	1,377,516	1,390,705	2,645,816	2,768,221	122,405	4.63%
2110	Judicial Branch	2,378,886	3,563,163	1,738,300	1,094,882	5,942,049	2,833,182	(3,108,867)	-52.32%
3101	Governor's Office	45,247	10,299,338	10,016,796	161,583	10,344,585	10,178,379	(166,206)	-1.61%
3401	State Auditor's Office	4,402,828	5,027,115	5,091,540	5,120,629	9,429,943	10,212,169	782,226	8.30%
3501	Office Of Public Instruction	943,936	948,016	967,779	967,784	1,891,952	1,935,563	43,611	2.31%
4110	Department Of Justice	27,440,085	34,941,053	33,902,247	29,366,120	62,381,138	63,268,367	887,229	1.42%
4201	Public Service Regulation	2,669,538	3,246,224	2,924,244	2,763,430	5,915,762	5,687,674	(228,088)	-3.86%
5101	Board Of Public Education	152,785	191,300	193,340	191,645	344,085	384,985	40,900	11.89%
5102	Commissioner Of Higher Education	13,101,000	13,228,999	14,336,001	14,630,000	26,329,999	28,966,001	2,636,002	10.01%
5113	School For The Deaf & Blind	341,095	342,082	282,752	282,752	683,177	565,504	(117,673)	-17.22%
5114	Montana Arts Council	158,801	156,225	165,978	167,702	315,026	333,680	18,654	5.92%
5115	Montana State Library	1,020,396	1,020,824	1,048,747	1,048,748	2,041,220	2,097,495	56,275	2.76%
5117	Montana Historical Society	517,318	551,581	555,655	554,574	1,068,899	1,110,229	41,330	3.87%
5201	Department Of Fish, Wildlife & Parks	37,449,204	39,947,154	39,813,363	36,857,159	77,396,358	76,670,522	(725,836)	-0.94%
5301	Department Of Environmental Quality	17,829,392	47,871,613	55,769,689	18,750,191	65,701,005	74,519,880	8,818,875	13.42%
5401	Department Of Transportation	237,162,066	257,795,421	287,267,695	260,039,377	494,957,487	547,307,072	52,349,585	10.58%
5603	Department Of Livestock	5,627,536	7,189,943	6,071,564	6,099,685	12,817,479	12,171,249	(646,230)	-5.04%
5706	Dept Of Natural Resources & Conservation	16,489,400	17,643,761	20,424,346	19,309,225	34,133,161	39,733,571	5,600,410	16.41%
5801	Department Of Revenue	549,014	553,163	621,921	632,330	1,102,177	1,254,251	152,074	13.80%
6101	Department Of Administration	3,715,679	4,074,101	5,714,947	5,692,831	7,789,780	11,407,778	3,617,998	46.45%
6106	Mt Consensus Council	239,800	273,341	198,367	198,181	513,141	396,548	(116,593)	-22.72%
6201	Department Of Agriculture	7,578,716	8,795,144	9,428,601	9,402,295	16,373,860	18,830,896	2,457,036	15.01%
6401	Department Of Corrections	2,084,959	2,602,923	2,687,469	2,684,418	4,687,882	5,371,887	684,005	14.59%
6501	Department Of Commerce	1,622,888	2,902,659	3,432,398	1,843,809	4,525,547	5,276,207	750,660	16.59%
6602	Department Of Labor & Industry	24,912,507	26,686,355	27,686,362	27,922,361	51,598,862	55,608,723	4,009,861	7.77%
6701	Department Of Military Affairs	542,203	1,300,645	984,976	982,700	1,842,848	1,967,676	124,828	6.77%
6901	Dept Of Public Health & Human Services	36,553,605	49,641,208	61,453,879	61,519,915	86,194,813	122,973,794	36,778,981	42.67%
	Total	$448,917,443	$544,108,685	$596,574,768	$511,470,027	$993,026,128	$1,108,044,795	$115,018,667	11.58%

Figure 5

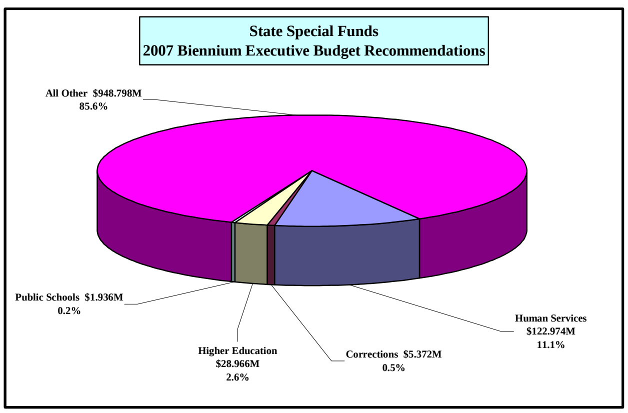
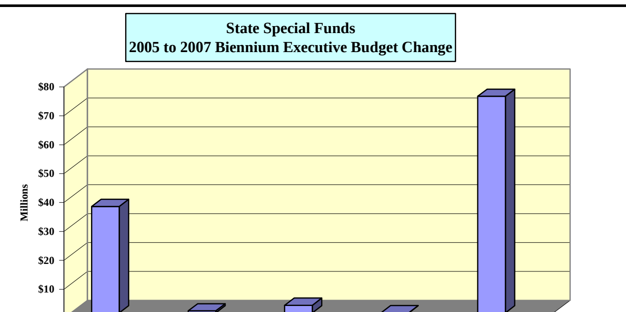


Figure 6



	Human Services	Corrections	Higher Education	Public Schools	All Other
Change	$36.779	$0.684	$2.636	$0.044	$74.876
% Change	31.98%	0.59%	2.29%	0.04%	65.10%

$115.019 Million or Percent Change 11.58%

FEDERAL SPECIAL REVENUE

As defined in 17-2-102, MCA, the federal special fund "consists of money deposited in the treasury from federal sources, including trust income, that is used for the operation of state government."

As shown in Figure 7, federal funds would increase $311.8 million, or 10.8 percent, primarily due to the increases in human services, which account for $214.4 million, or almost 69 percent of the total increase. There are a number of reasons for the increase in human services federal funds, primarily:

- Increased caseloads and services in a number of programs, most particularly in Medicaid and food stamps
- Medicaid redesign efforts, a major part of which is to use existing state resources as match to secure additional federal funds
- Continued use of bed tax and hospital utilization fees to match federal funds
- Increases in categorical federal grants

Other major increases are due to utilization of anticipated federal grant funds in:

- Highways construction
- K-12 education
- Environmental and wildlife
- Community development

Figure 7

Federal Special Revenue Fund Comparison
05 Biennium Versus Executive Budget 07 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2004	Adjusted Authorized Fiscal 2005	Total Exec. Budget Fiscal 2006	Total Exec. Budget Fiscal 2007	Total Adjusted Fiscal 04-05	Total Exec. Budget Fiscal 06-07	Difference 07 Biennium - 05 Biennium	% Change 05 Biennium 07 Biennium
2110	Judicial Branch	$136,150	$209,161	$692,510	$692,310	$345,311	$1,384,820	$1,039,509	301.04%
3101	Governor's Office	110,377	2,110,922	114,009	113,966	2,221,299	227,975	(1,993,324)	-89.74%
3201	Secretary Of State's Office	0	0	5,469,529	5,556,936	0	11,026,465	11,026,465	
3401	State Auditor's Office	0	0	0	0	0	0	0	
3501	Office Of Public Instruction	128,186,361	150,109,721	145,037,036	152,257,932	278,296,082	297,294,968	18,998,886	6.83%
4107	Crime Control Division	8,896,110	15,412,436	13,689,910	13,689,767	24,308,546	27,379,677	3,071,131	12.63%
4110	Department Of Justice	2,786,344	3,247,260	2,863,202	2,595,992	6,033,604	5,459,194	(574,410)	-9.52%
4201	Public Service Regulation	13,732	13,980	13,732	13,732	27,712	27,464	(248)	-0.89%
5101	Board Of Public Education	0	0	0	0	0	0	0	
5102	Commissioner Of Higher Education	33,020,086	54,168,298	44,656,165	46,775,603	87,188,384	91,431,768	4,243,384	4.87%
5113	School For The Deaf & Blind	96,696	96,696	102,865	102,865	193,392	205,730	12,338	6.38%
5114	Montana Arts Council	579,984	621,587	602,734	602,734	1,201,571	1,205,468	3,897	0.32%
5115	Montana State Library	757,888	1,253,505	1,180,694	780,694	2,011,393	1,961,388	(50,005)	-2.49%
5117	Montana Historical Society	720,896	755,849	791,541	790,789	1,476,745	1,582,330	105,585	7.15%
5201	Department Of Fish, Wildlife & Parks	14,941,052	15,456,384	21,478,580	18,260,227	30,397,436	39,738,807	9,341,371	30.73%
5301	Department Of Environmental Quality	20,460,991	22,376,065	31,512,442	25,578,072	42,837,056	57,090,514	14,253,458	33.27%
5401	Department Of Transportation	253,567,401	384,540,233	328,813,657	339,834,622	638,107,634	668,648,279	30,540,645	4.79%
5603	Department Of Livestock	1,277,919	1,598,820	1,465,125	1,462,522	2,876,739	2,927,647	50,908	1.77%
5706	Dept Of Natural Resources & Conservation	1,764,840	1,863,030	1,987,962	2,001,908	3,627,870	3,989,870	362,000	9.98%
5801	Department Of Revenue	2,362,285	2,184,473	298,421	301,502	4,546,758	599,923	(3,946,835)	-86.81%
6101	Department Of Administration	1,049,961	1,966,933	1,540,521	1,539,947	3,016,894	3,080,468	63,574	2.11%
6201	Department Of Agriculture	827,084	3,312,907	5,090,103	1,494,618	4,139,991	6,584,721	2,444,730	59.05%
6401	Department Of Corrections	228,677	497,053	554,852	554,852	725,730	1,109,704	383,974	52.91%
6501	Department Of Commerce	16,498,731	13,933,825	18,097,671	18,329,596	30,432,556	36,427,267	5,994,711	19.70%
6602	Department Of Labor & Industry	33,982,053	38,253,265	36,620,200	36,421,394	72,235,318	73,041,594	806,276	1.12%
6701	Department Of Military Affairs	10,346,421	13,147,135	12,367,232	12,398,731	23,493,556	24,765,963	1,272,407	5.42%
6901	Dept Of Public Health & Human Services	782,469,861	845,624,148	893,509,706	948,971,687	1,628,094,009	1,842,481,393	214,387,384	13.17%
	Total	$1,315,081,900	$1,572,753,686	$1,568,550,399	$1,631,122,998	$2,887,835,586	$3,199,673,397	$311,837,811	10.80%

Figure 8

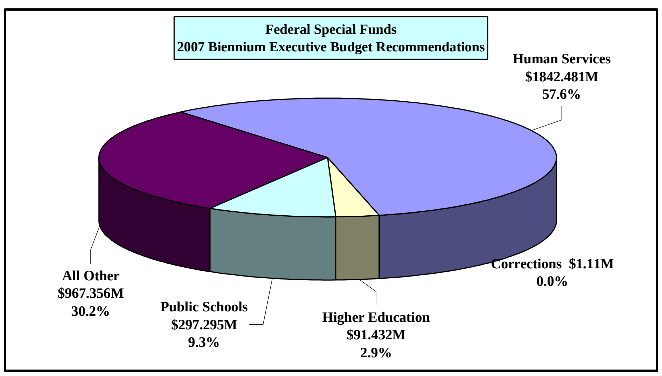
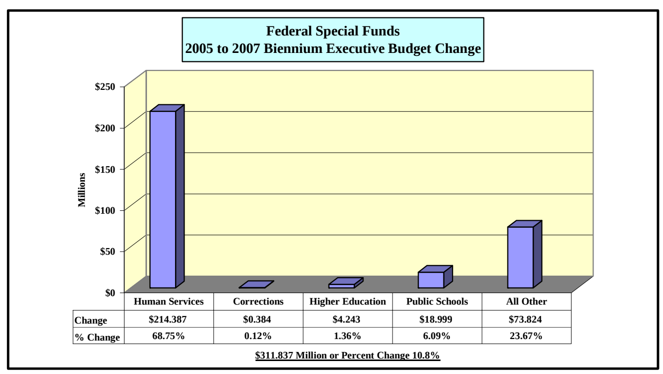


Figure 9



PROPRIETARY FUNDS

As defined in 17-7-102, MCA, proprietary funds are designated as either enterprise or internal service funds. Enterprise funds "account for operations: (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e. expenses, including depreciation) of providing goods or services to that general public on a continuing basis are to be financed or recovered primarily through user charges; or (B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes." Internal service funds "account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost reimbursed basis."

Statute does not require that most proprietary funds be appropriated. Therefore, any increases in the programs supported with these proprietary funds are not reflected in the table.

As shown in Figure 10, appropriated proprietary funds decrease almost $70,000 or 0.3 percent, due primarily to the net of various increases and decreases, of which one is in the Department of Labor and Industry that actually represents a error in mapping expenditures from what should have been a non-budgeted account to a HB 2 account.

Figure 10

Proprietary Fund Comparison
05 Biennium Versus Executive Budget 07 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2004	Adjusted Authorized Fiscal 2005	Total Exec. Budget Fiscal 2006	Total Exec. Budget Fiscal 2007	Total Adjusted Fiscal 04-05	Total Exec. Budget Fiscal 06-07	Difference 07 Biennium - 05 Biennium	% Change 05 Biennium 07 Biennium
4110	Department of Justice	$810,037	$821,848	$1,010,326	$897,056	$1,631,885	$1,907,382	$275,497	16.88%
5117	Historical Society	828,812	875,378	959,014	950,583	1,704,190	1,909,597	205,407	12.05%
5801	Department of Revenue	2,003,783	1,983,452	2,115,429	2,114,174	3,987,235	4,229,603	242,368	6.08%
6101	Department of Administration	8,404,704	7,420,334	8,221,454	7,496,256	15,825,038	15,717,710	(107,328)	-0.68%
6201	MT Dept of Agriculture	285,518	328,770	367,277	369,592	614,288	736,869	122,581	19.95%
6401	Dept of Corrections	462,573	549,311	487,797	481,654	1,011,884	969,451	(42,433)	-4.19%
6602	Labor & Industry	61,045	864,255	80,207	79,348	925,300	159,555	(765,745)	-82.76%
	Total	$12,856,472	$12,843,348	$13,241,504	$12,388,663	$25,699,820	$25,630,167	($69,653)	-0.27%

ALL FUNDS

Figure 11 is a composite by agency of the preceding tables, and shows an $654.6 million, or 10.6 percent increase in total fund expenditures.

Figure 11

All Funds Comparison
05 Biennium Versus Executive Budget 07 Biennium

Agcy Code	Agency Name	Total Adjusted Fiscal 04-05	Total Exec. Budget Fiscal 06-07	Difference 07 Biennium - 05 Biennium	% Change 05 Biennium 07 Biennium
1104	Legislative Branch	$20,164,335	$20,969,368	$805,033	3.99%
1112	Consumer Council	2,645,816	2,768,221	122,405	4.63%
2110	Judicial Branch	64,828,673	74,912,145	10,083,472	15.55%
3101	Governor's Office	21,383,896	20,009,849	(1,374,047)	-6.43%
3201	Secretary Of State's Office	0	11,026,465	11,026,465	
3202	Commissioner Of Political Practices	632,890	647,698	14,808	2.34%
3401	State Auditor's Office	9,429,943	10,212,169	782,226	8.30%
3501	Office Of Public Instruction	1,309,165,538	1,356,419,284	47,253,746	3.61%
4107	Crime Control Division	27,583,033	30,817,274	3,234,241	11.73%
4110	Department Of Justice	107,514,911	111,393,714	3,878,803	3.61%
4201	Public Service Regulation	5,943,474	5,715,138	(228,336)	-3.84%
5101	Board Of Public Education	649,375	717,625	68,250	10.51%
5102	Commissioner Of Higher Education	391,504,387	420,802,046	29,297,659	7.48%
5113	School For The Deaf & Blind	7,793,250	8,708,201	914,951	11.74%
5114	Montana Arts Council	2,093,201	2,186,409	93,208	4.45%
5115	Montana State Library	7,267,048	7,466,455	199,407	2.74%
5117	Montana Historical Society	7,731,532	8,414,189	682,657	8.83%
5201	Department Of Fish, Wildlife & Parks	107,793,794	116,409,329	8,615,535	7.99%
5301	Department Of Environmental Quality	114,755,361	139,836,831	25,081,470	21.86%
5401	Department Of Transportation	1,133,065,121	1,215,955,351	82,890,230	7.32%
5603	Department Of Livestock	16,748,481	16,201,608	(546,873)	-3.27%
5706	Dept Of Natural Resources & Conservation	72,081,283	86,640,136	14,558,853	20.20%
5801	Department Of Revenue	65,985,149	96,313,176	30,328,027	45.96%
6101	Department Of Administration	34,575,942	43,113,949	8,538,007	24.69%
6102	Appellate Defender	373,462	397,616	24,154	6.47%
6106	Mt Consensus Council	513,141	396,548	(116,593)	-22.72%
6201	Department Of Agriculture	22,354,505	27,341,542	4,987,037	22.31%
6401	Department Of Corrections	217,073,483	242,235,111	25,161,628	11.59%
6501	Department Of Commerce	38,107,439	44,953,910	6,846,471	17.97%
6602	Department Of Labor & Industry	127,113,412	132,484,291	5,370,879	4.23%
6701	Department Of Military Affairs	33,642,734	35,476,579	1,833,845	5.45%
6901	Dept Of Public Health & Human Services	2,234,800,021	2,569,004,373	334,204,352	14.95%
	Total	$6,205,314,630	$6,859,946,600	$654,631,970	10.55%

TRUST FUNDS

BACKGROUND

Montana has a number of constitutional and statutory trusts that provide interest income (over $85 million per year) to fund state government operations. While recent legislatures eliminated the principal of the education trust, slowed the flow of revenue into the coal tax trust and parks acquisition trust, and capped the growth of the resource indemnity tax trust, substantial balances totaling o$1.3 billion at the end of FY 2004 remain.

1999 LEGISLATURE

The Fifty-sixth Legislature in the 1999 session reduced the rate of growth in many of the trusts by passing legislation that redirected incoming revenues. The Fifty-sixth Legislature passed legislation that reduced the FY 2001 ending fund balance for all trusts combined by an estimated $26 million when compared with pre-session estimates. The reduction in revenue growth was the greatest for the Permanent Coal Tax Trust, the Treasure State Endowment, and the Common School Fund. The legislature substantially enhanced the revenue growth into the noxious weed trust and marginally increased revenue into the Resource Indemnity Trust.

2001 LEGISLATURE

The Fifty-seventh Legislature in the 2001 session enacted several measures impacting state trust funds.

- HB 444 appropriated to the Department of Justice $990,000 for the 2003 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation was to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. This results in a loss of trust interest earning transfers to the general fund.
- HB 610, beginning FY 2004, reduces the amount of total coal severance tax collections deposited in the treasure state endowment fund from 37.5 percent to percent 25.0 percent and increases the amount deposited to the permanent fund from 0 percent to 12.5 percent.
- The passage of SB 495 resulted in the sale of the common school trust's mineral production rights and the diversion of future royalties that would have been deposited in the trust. As a result of the sale, the balance of the common school trust increased by $46.4 million, but the trade-off was a substantial future reduction in future growth of the trust. For further information and analysis of SB 495, contact the Legislative Fiscal Division for a copy of the two-part report: "SB 495 – Implementation, Impacts and Implications".
- Because the resource indemnity trust reached the constitutionally protected cap of $100 million in FY 2002, any amount in excess of $100 million becomes available for the legislature to appropriate. In HB 2, the legislature appropriated all of the estimated $1.1 million excess in FY 2003, thus reducing the trust balance.

2003 LEGISLATURE

The Fifty-eighth Legislature in the 2003 session enacted one measure impacting state trust funds. HB 160 appropriated to the Department of Justice $650,000 for the 2005 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. The resulting loss in transfer of trust interest earnings to the general fund is expected to be $21,807 in FY 2004 and $44,135 in FY 2005.

MAJOR TRUST FUNDS

OVERVIEW

Figures 1 and 2 show the history of the ten major trusts since FY 1973. Forecast amounts are shown for FY 2005, 2006 and 2007, and are based on assumptions contained in HJR 2 (HJR2). Following is a description of each trust and the income it generates. Also shown are expected interest earnings from each trust in FY 2005, 2006, and 2007.

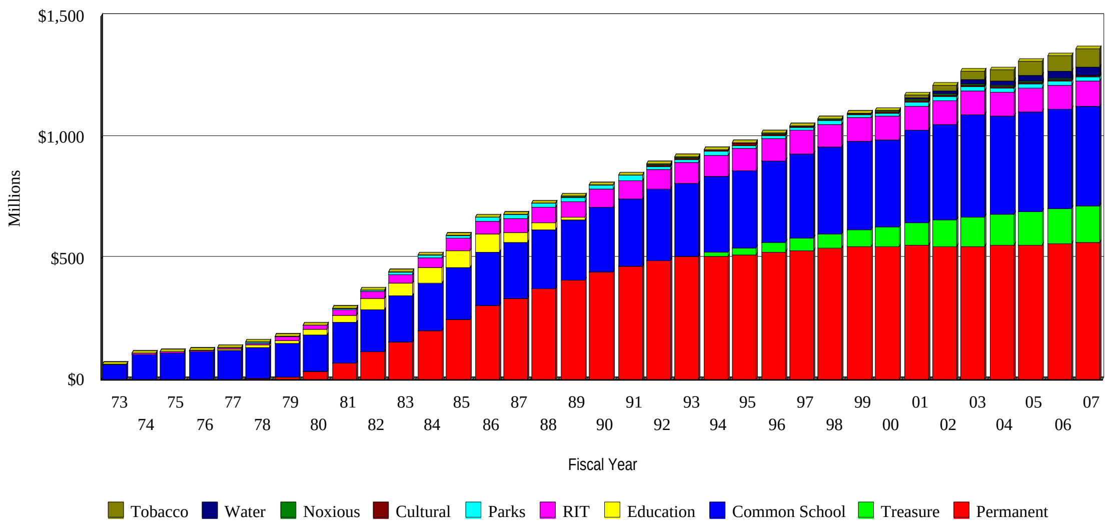
Figure 1

Selected Trust Fund Balances
Including Projected Investment Earnings

	Fiscal Year	Permanent Coal Tax Trust Fund	Treasure St Endowment Trust Fund	Common * School Trust Fund	Education Trust Fund	Resource Indemnity Trust Fund	Parks * Acquisition Trust Fund	Cultural * Protection Trust Fund	Noxious * Weed Trust Fund	Regional Water Trust Fund	Tobacco Trust Fund	Total Trust Funds
A	73	0	0	$64,223,773	0	0	0	0	0	0	0	$64,223,773
A	74	0	0	108,998,870	0	$1,141,385	0	0	0	0	0	110,140,255
A	75	0	0	113,064,188	0	3,287,456	0	0	0	0	0	116,351,644
A	76	0	0	117,849,628	$2,227,793	5,552,291	$278,725	0	0	0	0	125,908,437
A	77	0	0	123,281,528	6,039,530	8,232,247	758,308	0	0	0	0	138,311,613
A	78	$6,268,262	0	129,949,247	8,983,763	10,646,851	1,174,356	0	0	0	0	157,022,479
A	79	16,940,538	0	137,716,735	12,339,549	12,574,209	1,475,732	0	0	0	0	181,046,763
A	80	39,964,765	0	147,527,943	23,905,146	16,204,531	3,565,371	0	0	0	0	231,167,756
A	81	75,187,459	0	163,163,556	33,624,170	21,165,464	5,325,746	0	0	0	0	298,466,395
A	82	118,336,314	0	176,467,865	44,338,477	28,328,946	7,480,418	0	0	0	0	374,952,020
A	83	158,358,806	0	189,390,417	52,665,410	36,181,889	9,481,542	0	0	0	0	446,078,064
A	84	202,936,358	0	201,319,109	60,925,268	42,986,128	11,565,460	0	0	0	0	519,732,323
A	85	252,420,524	0	214,764,544	70,500,922	47,396,179	13,859,181	0	0	0	0	598,941,350
A	86	309,384,250	0	217,677,906	79,761,708	53,039,675	16,222,131	0	$443,184	0	0	676,528,854
A	87	339,883,180	0	227,687,073	44,091,429	56,861,627	16,613,608	0	824,550	0	0	685,961,467
A	88	381,180,287	0	239,553,633	33,671,110	61,750,961	16,581,042	0	1,070,972	0	0	733,808,005
A	89	411,838,993	0	254,128,428	8,651,477	66,665,000	16,608,706	0	1,320,720	0	0	759,213,324
A	90	446,511,416	0	268,496,362	0	72,811,618	17,936,701	0	1,688,370	0	0	807,444,467
A	91	470,322,655	0	280,326,496	0	77,324,921	18,882,548	0	2,121,973	0	0	848,978,593
A	92	496,465,569	0	291,753,603	0	82,489,898	12,588,366	$7,051,506	2,584,254	0	0	892,933,196
A	93	511,474,640	0	300,782,863	0	86,890,369	12,538,119	6,863,579	2,534,844	0	0	921,084,414
A	94	511,754,471	$20,520,830	310,735,129	0	89,316,268	12,538,119	7,025,290	2,518,875	0	0	954,408,982
A	95	515,470,287	31,793,125	321,265,835	0	91,614,674	12,538,119	7,296,373	2,544,390	0	0	982,522,803
A	96	530,144,251	42,262,548	331,630,225	0	93,152,864	12,998,633	7,518,157	2,502,197	0	0	1,020,208,875
A	97	538,223,210	52,210,048	347,298,490	0	94,584,643	13,483,000	3,846,000	2,527,953	0	0	1,052,173,344
A	98	545,789,038	61,800,580	355,329,490	0	95,582,249	14,005,728	3,852,201	2,537,621	0	0	1,078,896,907
A	99	555,204,609	68,334,808	365,188,709	0	94,991,658	14,399,076	3,852,202	2,471,388	0	0	1,104,442,450
A	00	553,031,020	81,347,120	359,661,156	0	96,404,163	14,834,592	4,050,384	3,635,000	$3,441,977	0	1,116,405,412
A	01	557,477,352	92,182,012	384,741,584	0	100,373,547	15,376,300	4,257,671	4,760,000	7,389,930	$10,819,202	1,177,377,598
A	02	555,718,038	105,383,384	394,132,998	0	102,065,653	15,777,802	4,454,360	4,760,000	11,914,241	23,203,088	1,217,409,564
A	03	553,406,844	120,337,392	424,415,537	0	100,000,965	15,777,996	4,454,456	5,073,619	16,902,479	35,830,328	1,276,199,616
A	04	557,754,322	128,083,371	405,618,690	0	100,002,390	16,289,556	4,653,188	4,864,635	21,078,919	46,788,330	1,285,133,401
Fund Balance Forecast												
F	05	561,735,000	136,391,000	408,946,000	0	100,254,844	16,712,000	4,862,000	4,864,635	25,233,000	57,542,000	1,316,540,479
F	06	565,685,000	144,292,000	410,613,000	0	100,254,844	17,113,000	5,061,000	4,864,635	29,183,000	66,347,000	1,343,413,479
F	07	569,719,000	152,013,000	412,280,000	0	100,254,844	17,523,000	5,264,000	4,864,635	33,044,000	75,165,000	1,370,127,479
Investment Earnings Forecast												
F	05	35,999,000	9,094,000	26,807,000	0	7,401,000	1,163,000	338,000	253,118	1,487,000	3,123,000	85,670,682
F	06	36,790,000	9,704,000	27,019,000	0	7,417,000	1,191,000	351,000	253,118	1,757,000	3,709,000	88,196,682
F	07	37,244,000	10,230,000	27,139,000	0	7,420,000	1,217,000	364,000	253,118	2,007,000	4,230,000	90,109,682

* These trust fund balances include trust fund bond pool appreciation/depreciation entries.

Figure 2
Cumulative Balances of Trust Funds



LFD COMMENT Various restrictions, either constitutional or statutory, prohibit or restrict the expenditure of all or a portion of trust fund balances. For example, the Montana Constitution prohibits expenditure of money in the resource indemnity tax trust until the balance reaches $100 million. Since the balance of this trust is at this limit, any additional trust balance can be spent. Figure 3 shows the nine trust funds, their fiscal 2004 balances, and the restrictions for spending the balances.

Figure 3

Selected Trust Funds
Balances and Restrictions

Type of Restriction/Trust Fund	Fiscal 2004 Balance	Restrictions
Statutory		
Parks Acquisition Trust	$16,289,556	None
Cultural Trust	4,653,188	None
Subtotal	$20,942,744	
Constitutional		
Permanent Coal Severance Tax Trust	$557,754,322	Inviolate, except by 3/4 vote of each house
Common School Trust	405,618,690	Inviolate, guaranteed by state against loss or diversion
Treasure State Endowment Trust	128,083,371	Inviolate except by 3/4 vote of each house
Resource Indemnity Tax Trust	100,002,390	Inviolate, $100 million guaranteed by state against loss or diversion
Tobacco Settlement Trust	46,788,330	Inviolate, except by 2/3 vote of each house
TSE Regional Water System Trust	21,078,919	Inviolate, except by 3/4 vote of each house
Noxious Weed Management	4,864,635	$10 million inviolate, except by 3/4 vote of each house *
Subtotal	$1,264,190,657	
Total	$1,285,133,401	

* If the statutory noxious weed management trust is designated by the legislature to be the constitutional trust.

CONSTITUTIONAL TRUSTS

Permanent Coal Tax Trust

Article IX, Section 5 of the Montana Constitution requires that at least 50 percent of all coal severance tax revenue be deposited in a permanent coal tax trust fund, and that the principal of the trust "shall forever remain inviolate unless appropriated by a vote of three-fourths of the members of each house of the legislature." By statute, interest earned on this trust that is not earmarked for other programs is distributed 100 percent to the general fund. As described below, some of the interest earned on the trust is earmarked for other programs.

The interest earned on the permanent coal tax trust fund is an important general fund revenue source. During the period of FY 1981 through FY 2004, $821.9 million in interest from this trust was deposited in the combined general fund/school equalization account (SEA). In FY 2004, permanent coal tax trust fund interest provided 2.5 percent of total revenue to the general fund.

Initiative 95, approved by voters in 1982, required that 25 percent of the revenue deposited in the permanent coal tax trust after June 30, 1983, be placed in the in-state investment trust fund for investment in the Montana economy "with special emphasis on investments in new or expanding locally owned enterprises." The 1991 legislature: 1) eliminated separate accounting for the in-state investment trust; and 2) instructed the Board of Investments to "endeavor to invest up to 25 percent of the permanent coal tax trust fund" in the Montana economy.

The 1989 and 1991 legislatures gave authority to the Montana Science and Technology Alliance (MSTA) for the use of $12.5 million from the in-state investment fund for investment in new and expanding technology-based Montana businesses and for research and development project loans. The 1993 legislature authorized MSTA to invest an additional $11.0 million from the in-state investment program.

The payback of principal from MSTA loans returns to the trust. Before July 1, 1993, the interest from MSTA loans was distributed in the same manner as other interest earned on the permanent coal tax trust fund. HB 394, enacted by the 1993 legislature, created a special revenue account into which all interest earned from MSTA loans is deposited and from which MSTA expenses will be paid, with the balance returning to the trust.

The 1991 legislature also appropriated $3.3 million from the permanent coal tax trust fund for the Microbusiness Development Act. These funds provided capital to microbusiness development corporations that provide loans and technical assistance to qualified small businesses. Interest earnings and loan repayments were retained by the program to finance administrative costs and future loans.

During the January 1992 special session, the legislature authorized the creation of a school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provided up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. School districts are required to repay any guarantee funds used. Interest on the contingency fund is distributed in the same manner as all other interest earned on the permanent coal tax trust fund. The provisions of this legislation expired on January 1, 1993. HB 667, passed during the 1993 legislative session, provides Guaranteed Tax Base (GTB) aid to certain schools with bonds outstanding or bond issues contemplated. The source of funding for GTB aid was the school equalization account (SEA). The contingency fund will continue to exist until calendar 2012 when the bonds will be retired. At the end of FY 2003, all schools districts with loans backed by the state had refinanced their debt and the state no longer secures the bonds issued by the Department of Administration. In FY 2003, all reserves in the contingency fund were distributed to the treasure state endowment fund and the treasure state endowment regional water fund.

In the June 1992 election, voters approved a referendum to create the treasure state endowment fund (TSEF) within the permanent coal tax trust fund. The fund received a $10.0 million grant from the trust principal in FY 1994 and will receive half the funds deposited in the trust during FY 1995 through FY 2013. Interest earned on the TSEF is used to finance local infrastructure projects, as prioritized by the Departments of Commerce and Natural Resources and Conservation, and authorized by the legislature.

During the November 1993 special session, the legislature authorized SB 4 that required the cash balance in the coal tax bond fund as of July 1, 1993 be deposited in the permanent coal tax trust fund. The total amount transferred was $31.1 million. SB 4 also changed the distribution mechanism by requiring the 50 percent coal severance tax revenue allocation be deposited in the TSEF and the permanent coal tax trust fund on an equal basis. Prior to SB 4, coal severance tax revenue earned on production taking place beginning July 1, 1993, was to have been deposited in TSEF. In the following fiscal year, one-half of the previous year's inflow was to have been deposited in the permanent coal tax trust fund, and the TSEF was to retain the rest. Without SB 4, the permanent coal tax trust fund would not have received any coal severance tax revenue during FY 1994.

The 1993 legislature passed HB 401, which authorized a loan to the Department of Environmental Quality (DEQ) from the permanent coal tax trust fund for technical, litigation, and administrative expenses associated with the natural resource damage litigation suit against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.6 million for the 1995 biennium and $5.2 million to repay principal and interest to the general fund for litigation costs incurred in the 1993 biennium. As of December 1994, $6.3 million had been withdrawn from the permanent coal tax trust to pay for litigation expenses. Since then, the case has been settled and money returned to the permanent trust (see the write-up of HB 110 enacted by the 1997 legislature).

1995 Legislative Action

HB 305 authorized a loan to the Department of Justice from the permanent coal tax trust for the purpose of conducting the litigation and natural resource claims against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.4 million for the 1997 biennium. The bill also extended loans made for the same purpose during the 1995 biennium.

HB 354 expanded appropriations for the Microbusiness Financing Act, which provides loans to businesses employing less than ten employees and generating less than $500,000 in gross revenue annually. The expansion of this program doubled the previous appropriation to $3.25 million of investable coal tax trust funds made available to the Microbusiness Finance Program in the Department of Commerce. Beginning July 1, 1995, HB 354 also increased maximum loan amounts per individual loan from $20,000 to $35,000. The program provides financing for working capital assets and fixed asset acquisition, with more flexible repayment terms than those offered by commercial institutions. Payback of interest and principal of the loan amounts are used for administrative purposes and for financing new microbusiness loans.

SB 38 authorized the Job Investment Act under which the Department of Commerce may loan a portion of the permanent coal tax trust to businesses to create and retain jobs in Montana. A loan to a qualified business may not exceed $500,000, and the department is to report annually to the Revenue and Taxation Committee. The legislation also reduced the amount of permanent coal tax trust funds that the Board of Investments allows the Montana Board of Science and Technology Development to invest in seed capital loans and mezzanine loans from $15.5 million to $12.5 million. The bill also increased the amount of permanent coal tax trust funds available for research and development projects from $8.1 million to $11.1 million. In the past, these funds were used primarily as loans to the University System. Under SB 38, these funds were granted to the University System for research and development projects.

SB 83 abolished the distribution of coal trust interest to the SEA. Under previous law, 15 percent of coal trust interest earnings were deposited in the SEA and 85 percent in the general fund. As a result of SB 83, 100 percent of coal trust interest earnings are deposited in the general fund in FY 1996 and beyond.

1997 Legislative Action

HB 110 appropriated to the Department of Justice $2.5 million in state special revenue to be used for continuing litigation expenses associated with the Atlantic Richfield case. The appropriation was for expenses incurred during the 1999 biennium, and, upon settlement of the case, the amount used plus interest was to be returned to the general fund. The case was settled in June of 1998 for $215 million. On June 24, 1998, $15 million was deposited into Short-Term Investment Pool (STIP) for payment to the permanent trust and the general fund. In the middle of October 1998, $12.2 million was transferred to the permanent trust, including $9.8 million in principal and $2.4 million in interest. In the middle of November 1998, $1.9 million was transferred to the general fund. This transfer consisted of principal ($1.4 million) and interest ($0.5 million), and constituted repayment of general fund loans going back to FY 1983 when the case began.

The legislature amended the allocation of coal severance taxes under 15-35-108, MCA. In HB 14, the 1997 legislature authorized the issuance of general obligation bonds to fund the purchase of Virginia City and Nevada City properties. In HB 5, the legislature allocated 1.3 percent of coal severance tax revenue to pay the debt service on the bonds, which have a term of ten years. Coal tax revenue will be distributed to the Long-Range Building Program (LRBP) debt service account for FY 1998 through 2007. This allocation diverts coal severance tax revenue that would otherwise be deposited in the general fund. Based on revenue estimates in HJR 2, this change in allocation resulted in a loss to the general fund of $0.5 million in FY 1998 and 1999. Once the ten-year period has expired, the 1.3 percent allocation will revert to the general fund.

HB 5 also eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic (C&A) trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of Virginia City and Nevada City. This appropriation resulted in a loss of trust interest revenue that otherwise would have been used to fund C&A projects during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. Based on revenue estimates in HJR 2, this part of HB 5 resulted in a loss to the general fund of $91,736 and $93,195 for FY 1998 and 1999, respectively. After the 1999 biennium, similar amounts of coal severance tax revenue were diverted from the C&A projects account and again flowed to the general fund.

HB 578 abolished the Montana Board of Science and Technology beginning July 1, 1999. The amount of money committed for research and development ($11.1 million) and for seed capital loans ($12.5 million) was disbursed until July 1, 1999. Any money under these caps that had not been committed, except for $915,000, was returned to the coal tax trust. The board continued to provide seed capital loans of up to $700,000 to existing seed capital companies until July 1, 1999 or until an amount of $915,000 was reached. However, up to $75,000 could have been used for administrative expenses. Beginning April 1, 1997, the proceeds from seed capital loans must be deposited in the coal tax trust. However, during FY 1998, $250,000 of seed capital income, as well as $150,000 of job investment loan income, was used to fund the judges' retirement system. Also beginning April 1, 1997, and ending July 1, 1999, up to $2.0 million in income and interest from research and development loans at Montana public universities was authorized to be granted to research and development (R&D) projects at the universities. After July 1, 1999, all repayment proceeds from both seed capital loans and R&D loans in excess of $4.4 million must be deposited in the coal severance tax permanent fund.

1999 Legislative Action

Beginning July 1, 1999, HB 260 imposed a new coal license tax on the contract sales price of coal and reduced the coal severance tax liability for coal producers by allowing a credit against the coal severance tax in the amount of 101.5 percent of the coal license tax liability. Thus, coal producers would realize a reduction of 1.5 percent in the tax liability on coal production. The total reduction in coal severance tax collections was estimated at $20.7 million in FY 2000 and $19.6 million in FY 2001. The new coal license tax was estimated to generate $20.4 million in FY 2000 and $19.3 million in FY 2001. The legislation, in combination with HB 69 and SB 220, provided a new distribution of coal severance taxes and specified a distribution for the new coal license tax. Under the new distribution, none of the coal severance revenue would have been distributed to the permanent trust. Instead, 37.5 percent of the reduced coal severance tax revenue stream would have been deposited in the treasure state endowment trust fund, and 12.5 percent would have been deposited in a new TSEF regional water system account (SB220). The remaining distribution of the coal severance tax would be deposited as under previous law, except that the amount (1.3 percent) to long range building program debt service would have been directly deposited in the general fund as per HB 69. Coal severance tax revenue deposited in the permanent fund would be reduced by $8.3 million in FY 2000 and by $7.9 million in FY 2001. None of the new coal license tax would have been allocated to the permanent fund. Coal severance tax revenue deposited in the TSEF would have been reduced by $3.6 million in FY 2000 and $3.4 million in FY 2001. The revenue diversions in the each trust, as well as some of the revenue from the new coal license tax, would have been deposited into spendable accounts used for ongoing projects and payments associated with infrastructure loans and grants, agricultural seed capital, and research and commercialization loans and grants.

However, on January 20, 2000, the Montana Supreme Court found that HB 260 violated Article IX, Section 5, of the Montana Constitution and enjoined enforcement of the new coal producer's license tax. This rendered most of the legislation and appropriations meaningless. The decision did not affect the establishment of the research and commercialization expendable trust. Coordination with SB 220 also was not affected, allowing the establishment of the treasure state endowment regional water system trust and the distribution of coal severance tax to the trust, and the TSEF remain intact.

HB 69 eliminated the distribution of coal severance tax revenue to the long range building debt service account that was used to pay bonds issued for the purchase of Virginia City and Nevada City properties. Beginning July 1, 1999, the revenue is deposited in the general fund and the bond service payments are made by the general fund.

Beginning July 1, 1999, SB 220 created a new treasure state endowment regional water system fund into which is deposited 25 percent of one-half of all coal severance receipts. The other 75 percent of one-half of coal severance receipts flows into TSEF.

2001 Legislative Action

The Fifty-seventh Legislature in the 2001 session enacted HB 444 that appropriated $990,000 for the 2003 biennium to the Department of Justice as a loan from the coal severance permanent fund. The purpose of the appropriation is to conduct the natural resource damage assessment and litigation, and to pursue Montana's remaining natural resource damage claims, and any appeals against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund was an estimated $17,573 in FY 2002 and $52,718 in FY 2003. Any reimbursements received had to be deposited in the coal severance tax permanent fund. The legislation required a three-quarters vote of each house of the legislature.

Beginning FY 2004, HB 610 reduced the amount of total coal severance tax collections deposited in the treasure state endowment fund from 37.5 percent to percent 25.0 percent, and increased the amount of total collections deposited to the permanent fund from 0 percent to 12.5 percent. These changes result in greater interest earnings for the general fund and lower interest earnings for Treasure State Endowment Program beginning FY 2004.

In conjunction with HB 41, SB 495 changes the portion of school funding provided by the common school trust. The main points of the legislation are:

- Interest and income from the common school trust are deposited to a subfund of the general fund called the guarantee account
- The Department of Natural Resources and Conservation is authorized to purchase the mineral production rights from the common school trust
- A loan of up to $75 million from the coal severance trust permanent fund will be used to purchase the mineral production rights and deposited in the common school trust (the actual transaction was $46.4 million)
- Any mineral royalties from the purchased rights are deposited to the guarantee account
- After principal and interest payments on the loan used to purchase the mineral production rights are paid, the remaining money in the guarantee account is available for distribution to school districts
- Upon electorate approval of a constitutional amendment (contained in SB 493), the public school trust may be invested in private corporate capital stock

Although it was estimated that the cost of the mineral production rights would be $37.4 million, the actual amount loaned from the coal severance permanent fund was $46.4 million. It is estimated that the loss of interest earnings that would have been deposited to the general fund is $3.2 million in each year of the 2005 biennium. The legislation required a three-quarters vote of each house of the legislature.

Coal tax revenue flowing into the permanent coal tax trust fund is also used to secure state bonds issued to finance water resource development projects and activities.

Coal tax revenue is first deposited into the school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provides up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. The contingency fund has provided backing for $24.6 million in school bonds for 16 schools. The average balance in the contingency fund has been slightly more than $2.0 million. At the end of FY 2003, all schools districts with loans backed by the state had refinance their debt and the state no longer secures the bonds issued by the Department of Administration. In FY 2003, all reserves in the contingency fund were distributed to the treasure state endowment fund and the treasure state endowment regional water fund.

In the August 2002 special legislative session the legislature passed HB 4 and HB 7. Combined, these bills changed the guarantee account from a subfund in the general fund to a state special revenue fund and statutorily appropriated the money for schools.

2003 Legislative Action

HB 160 appropriated $650,000 to the Department of Justice for the 2005 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund is expected to be $21,807 in FY 2004 and $44,135 in FY 2005. Any reimbursements received must be deposited in the coal severance tax permanent fund. The legislation required a three-quarters vote of each house of the legislature.

Common School Trust

Article X, Sections 2 and 3 of the Montana Constitution require that all royalties and other proceeds received from school lands granted to the state under the federal enabling act must be deposited in the common school trust fund and "shall forever remain inviolate, guaranteed by the state against loss or diversion." Article X, Section 5 requires that 95 percent of the interest from this trust be used for school equalization, with the remaining 5 percent reinvested in the trust. In addition, 95 percent of all rents, royalties, and other income received from leasing of school lands is to be used for public schools with the remaining 5 percent invested in the trust.

During the January 1992 special session, the legislature passed HB 3, which provided that 95 percent of the revenue from state timber sales (approximately $4.9 million) be deposited in the SEA during the 1993 biennium, with the remaining 5 percent deposited in the trust.

The 1993 legislature passed HB 652, which continued the practice of diverting 95 percent of timber revenue to the SEA during the 1995 biennium. The loss in revenue to the common school trust during the 1995 biennium was approximately $9.1 million. HB 667, also passed during the 1993 legislative session, continued this practice indefinitely. The loss of revenue to the common school trust during the 1997 biennium was approximately $9.7 million.

1995 Legislative Action

HB 50 made permanent certain provisions regarding the sale of timber on state lands. HB 50 was expected to result in additional sales of timber during the 1997 biennium. However, additional costs associated with the sale of timber were also expected to be incurred. These costs were deducted from timber sale revenues.

HB 201, passed by the 1995 legislature, required the state to increase timber sales from state lands consistent with an annual sustainable yield of 45 million board feet to 55 million board feet, contingent on a study to determine the appropriate level of annual sustainable yield. HB 201 capped the amount of timber sale revenue deposited in the general fund (formerly the school equalization account, which was abolished in SB 83) from the common school trust at an average annual sale value of 18 million board feet. Any excess timber sale revenue from the common school trust was to be deposited in the general fund, but "earmarked" for deposit in the school districts' newly established technology acquisition fund, to buy technological equipment and provide technical training for school district personnel.

HB 201 also affected timber sale revenue because it diverted timber sale revenue before it was deposited in the general fund to pay for costs associated with increasing timber sales. The total revenue effect was estimated to be a loss of $1.1 million to the general fund during the 1997 biennium.

HB 274, passed by the 1995 legislature, granted the Department of State Lands broader discretion to expedite sales of state timber in emergency situations and limited access situations. Effective in FY 1996, as a result of the natural resources reorganization bill (SB 234), the forestry function was transferred from the Department of State Lands to the Department of Natural Resources and Conservation.

SB 83 de-earmarked all interest from the common school trust and income earned on common school lands. Henceforth, these revenues flow into the general fund.

1997 Legislative Action

The 1997 legislature passed legislation that impacted the flow of timber revenue into the common school trust by appropriating timber revenue for use by the DNRC to enhance timber sales during the 1999 biennium. The amounts appropriated, $1.2 million and $1.3 million in respective years of the biennium, were diverted from the revenue stream before the allocation of 5 percent of revenue to the trust.

HB 2 appropriated anticipated timber sale revenue in excess of that associated with 18 million board feet for deposition in schools' technology acquisition funds. The purpose of the fund is to allow each district to buy technological equipment and provide technical training for school district personnel. The amounts appropriated were $1.5 million in FY 1998 and $2.8 million in FY 1999, or the amount of "excess" revenue in each year, whichever is less.

1999 Legislative Action

SB 48 made significant changes in funding the Trust Land Management Division in the Department of Natural Resources and Conservation. The legislation diverted a portion of the following money (previously deposited into the corpus of the land trust funds) from certain land trusts administered by the department: 1) mineral royalties; 2) the proceeds or income from the sale of easements and timber (except timber from public school lands); and 3) 5 percent of the interest and income previously credited annually to the public school fund. The money was diverted to a state special revenue account to pay costs of administering state trust lands. The legislation provided limitations on the amount of diverted revenue and the amount of the appropriations: 1) the diverted revenue was limited to 1-1/8 percent of the book value balance in each of the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the previous fiscal year revenue deposited into the capitol building land grant trust fund; and 2) appropriations of the money were limited to 1-1/8 percent of the book value balance in the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the revenue deposited in the capitol building land grant trust fund in the last completed fiscal year prior to the new biennium. In HB 2, the legislature replaced $7.1 million of general fund appropriations with state special revenue provided by this legislation. Therefore, deposits to land trusts (primarily the Common School Trust) were reduced by $7.1 million over the biennium, approximately $3.5 million per year.

2001 Legislative Action

Although SB 495 potentially could have increase the balance of the common school trust by $75 million due to the sale of its mineral production rights, the increase depended on the amount of rights purchased by DNRC and the sale price. The actual purchase price of the mineral production rights was $46.4 million and this amount was deposited to the trust. Since future royalties from any sold mineral production rights are no longer deposited in the common school trust, the future growth of the trust is substantially curtailed. For further information and analysis of SB 495, contact the Legislative Fiscal Division for a copy of the two-part report: "SB 495 – Implementation, Impacts and Implications".

Resource Indemnity Trust

Article IX, Section 2 of the Montana Constitution and Title 35, Chapter 38, MCA, require that certain resource extraction taxes be placed in a trust. The principal of the resource indemnity trust "shall forever remain inviolate in an amount of one hundred million dollars ($100,000,000), guaranteed by the state against loss or diversion." Once the principal of the trust reaches $100 million, any additional tax revenue may be appropriated.

During the July 1992 special session, the legislature imposed a one-year surtax on resource indemnity tax liabilities and allocated collections from the surtax to the general fund. During the 1993 legislative session, the legislature passed HB 608 that decreased the amount of resource indemnity and groundwater assessment (RIGWA) tax proceeds deposited in the trust during the 1995 biennium from 85.9 percent per year to 55.9 percent, or approximately $5.0 million. The bill further reduced the amount of RIGWA tax revenue deposited in the trust to 45.9 percent beginning July 1, 1995. During the 1995 session, the legislature replaced a portion of RIGWA tax proceeds with oil and gas tax proceeds due to a bill to simplify oil and gas taxes (SB 412). Also, the legislature diverted for other purposes the metal mines license tax proceeds that previously were deposited to the trust.

1997 Legislative Action

SB 377 reduced the growth rate in the ending fund balance of the RIT trust by diverting $200,000 per year from RIGWA tax inflows and 8.5 percent from metalliferous mines license tax revenue to a newly created orphan share account. The reduction of inflow into the trust in each year of the biennium as a result of these diversions was $674,000 and $743,000. The orphan share account is used to: 1) fund remedial actions on the portion of hazardous waste sites for which there is no responsible party; and 2) pay for DEQ transaction costs associated with defending the orphan share proportions.

1999 Legislative Action

SB 49 and SB 492 increased the allocation of the RIGWA tax and the RIT share of the oil and gas production tax to the RIT. The ending fund balance at the end of the 2001 biennium was estimated to increase by $162,000 as a result of the legislation. The legislation also eliminated the allocation of RIGWA tax revenue to the RIT beginning July 1 of the first year following the date that the governor by executive order certified to the secretary of state that the RIT balance has reached $100 million.

2001 Legislative Action

The RIT balance reached the $100 million amount in FY 2002 and the balance was certified by the governor. Therefore, no additional revenue is deposited in the trust beginning FY 2003. The revenue estimates showed that there would be an estimated $101.1 million in the trust balance by the end of FY 2003. Since any additional tax deposits over the $100 million may be appropriated by the legislature, the 2001 legislature enacted the following legislation that uses all of the excess revenue: 1) SB 326 authorized the transfer of $500,000 to the noxious weed state special revenue account for distribution to counties (the money is appropriated in HB 2); 2) HB 2 transferred and appropriated $540,000 to purchase securities for water treatment at the former Zortman and Landusky mines; and 3) HB 2 transferred and appropriated $120,000 for the Clark Fork River task force (established in HB 397).

Tobacco Settlement Trust

Montana receives revenue as a settling party to master settlement agreement with four original tobacco companies and 43 subsequent companies that ended a four-year legal battle that included 46 states, and six other entities. Montana is eligible for four types of payment: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (two in FY 2000 with an additional one per year in FY 2001, 2002, and 2003); 3) on-going annual payments; and 4) strategic contribution payments (from FY 2008 through 2017). The master settlement agreement places no restrictions on how states are to spend the money. Contrary to popular belief, the payments will be received in perpetuity.

The total amount of tobacco settlement funds available to Montana may be affected by a number of adjustments. The three most important are the adjustments for inflation, volume of cigarettes shipped nationally, and loss of market shares for participating manufacturers. The amount of Montana’s annual share will increase by a minimum amount of 3 percent or more if inflation is greater than 3 percent. The amount will decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases. If it is verified that participating manufacturers have lost market shares due to disadvantages caused by the settlement, distributions will decrease.

2000 Constitutional Amendment

Due to passage of Montana Constitutional Amendment 35 in November 2000, the legislature is required to dedicate not less than 40 percent of the tobacco settlement money to a permanent trust fund. The remainder of the money is deposited into the general fund. Since the legislature did not pass legislation establishing the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. Interest earnings from the trust fund are to be distributed: 1) 90 percent for appropriation by the legislature for tobacco related disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and 2) 10 percent to the trust. Money in the trust fund can be spent if approved by two-thirds of each house of the legislature. Appropriations of principal, income, or interest from the trust fund cannot be used to replace state or federal money used to fund tobacco disease prevention programs that existed on December 31, 1999.

2001 Legislative Action

The 2001 legislature enacted SB 129 that established a Montana tobacco settlement non-expendable trust fund to implement Article XII, Section 4, of the Montana Constitution. The legislation also provided criteria to govern the purposes for which the interest, income, and principal of the trust may be appropriated. It did not establish a statutory percentage of the tobacco settlement dedicated for deposit in the trust fund.

2002 Initiative

Due to passage of Initiative 146 by the electorate in November 2002, beginning in FY 2004, 32 percent of the total tobacco settlement money funds tobacco prevention programs and 17 percent funds the Children's Health Insurance Program. The remaining 11 percent of the total settlement money is deposited to the general fund.

2003 Legislative Action

The 2003 legislature enacted SB 485 that changed Initiative 146 by increasing the programs that can be funded by tobacco settlement money, but only through FY 2005. With the changes, the 32 percent allocation can be used for human services programs and the 17 percent allocation can be used to match federal Medicaid money. The legislation also transferred $5,831,360 in FY 2004 and $6,057,600 in FY 2005 from the account receiving the 32 percent allocation to a newly created prevention and stabilization state special revenue account. Money in this account is used by the Department of Public Health and Human Services to finance, administer, and provide health and human services.

Noxious Weed Management Trust

During the period FY 1986 through 1992, at least one-half of the collections from a 1 percent surcharge on the retail sale of herbicides was deposited in the noxious weed management trust fund. The remaining collections were spent for weed control grants. The interest earned on the trust is retained in the trust. After the principal of the trust reached $2.5 million in FY 1992, all herbicide surcharge collections and the interest earned on the trust became available for weed control grants.

1995 Legislative Action

SB 321, passed by the 1995 Legislature, increased the amount of the gasoline tax revenue allocated to the snowmobile account from 23/64 of one percent to 15/28 of one percent. Beginning in FY 1996, one percent of the amount deposited in the snowmobile account is deposited in the Montana noxious weed control trust administered by the Department of Agriculture.

1999 Legislative Action

For the 2001 biennium, SB 164 transferred $1.1 million per year to the noxious weed trust from the highway non-restricted account in 15-70-125, MCA. As a result, the ending fund balance in the trust will almost double by June 30, 2002.

2001 Legislative Action

The August 2002 special legislative session reduced the transfer to the noxious weed state special revenue account for counties to $300,000.

2004 Constitutional Amendment

The electorate in the November 2004 election approved an amendment to the Montana Constitution (C-40) creating a noxious weed management trust fund. Ten million dollars of the principal of the fund is to remain forever inviolate unless appropriated by three-fourths of each house of the legislature. Appropriations of the principal over $10 million and the interest and income can only be used to fund the noxious weed management program, as provided by law.

STATUTORY TRUSTS

Education Trust

From FY 1976 through 1986, a portion of the revenue from the coal severance tax was allocated to an education trust for the support of education. The legislature appropriated the corpus of this trust to the school equalization account during the period of FY 1987 through 1990. Since FY 1990, the education trust has not received revenue from any source and its balance is zero.

Parks Acquisition Trust/Cultural Protection Trust

During most of the years since 1979, a portion of the coal severance tax has been earmarked for the parks acquisition trust. During the late 1980s, the flow of revenue into this account was diverted to the general fund. However, the principal began to increase again in FY 1990. Prior to FY 1992, two-thirds of the interest from this trust was statutorily allocated for acquisition and operation of state parks, and one-third was allocated for protection of works of art in the state capitol, and other cultural and aesthetics projects.

The 1991 legislature split the principal of this trust into two separate trusts, a parks acquisition trust and an arts protection trust. During the 1993 biennium, the coal tax revenue that would have flowed into the parks acquisition trust (1.267 percent) was spent for maintenance of parks and historic sites, along with the interest from the trust. HB 687, passed during the 1993 legislative session, continued this practice for the 1995 biennium, allocating $1.6 million from the trust to current operations. In the 1997 biennium, the coal tax revenue allocation was again deposited in the trust. SB 27, passed by the 1995 legislature, increased the allocation to the parks acquisition trust from 1.267 percent to 1.270 percent.

In FY 1992, 0.633 percent of coal severance tax revenues were deposited in the arts protection trust, with the trust interest continuing to be used for protection of works of art and for cultural and aesthetics projects. During the January 1992 special session, the legislature diverted a portion of the revenue that would have flowed into the arts protection trust in FY 1993 to fund the operations of the Montana Arts Council. Beginning in FY 1994, these revenues were again deposited in the trust. SB 27, passed by the 1995 legislature, decreased the allocation to the arts trust from 0.633 percent to 0.63 percent.

1997 Legislative Action

The 1997 legislature amended the allocation of coal severance taxes under 15-35-108, MCA. HB 5 eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of the Virginia City and Nevada City properties. This appropriation resulted in a loss of trust interest revenue that otherwise would be used to fund C&A projects in the state during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account, and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. After the 1999 biennium, similar amounts of coal severance tax revenue were diverted from the C&A projects account and again flowed to the general fund.

1999 Legislative Action

HB 260, HB 69, and SB 220 reduced coal severance tax revenue and replaced it with coal license tax revenue. The aim of the legislation was to hold the revenue flow into the arts and parks trusts as under current law. However, the arts and parks trusts lost around $25,000 over the biennium.

The January 20, 2000 decision of the Montana Supreme Court that found HB 260 violated Article IX, Section 5, of the Montana Constitution rendered the above changes meaningless.

2001 Legislative Action

In the August 2002 special legislative session, for FY 2003, the legislature temporarily diverted the parks acquisition trust, 1.27 percent allocation and the cultural trust, 0.63 percent allocation to the general fund. Beginning in FY 2004, the allocations resume.

Glossary

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium.

Budget amendment – See “Budget Amendment” below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose and which cannot be used for any other purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.
Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary - An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

Appropriation Transfers (also see ”Supplemental Appropriation”) – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- the Governor or his/her designated representative for executive branch agencies
- the Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- the Speaker of the House of Representatives for the House;
- the President of the Senate for the Senate

- the appropriate standing legislative committees or designated representative for the legislative branch divisions; and
- the Board of Regents of Higher Education or their designated representative for the university system.

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period.

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

IRIS - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each $1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Operating Expenses – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

> *Capital projects fund* – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.
>
> *Fiduciary funds* – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services –Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

> *Enterprise funds* – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.
>
> *Internal service funds*- Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

Acronyms

Acronyms are used to denote agencies, programs, and common terms. The following list includes some of the most common.

AES – Agricultural Experiment Station(s)
ADP – Average Daily Population (institutions)
ANB – Average Number Belonging (K-12 education)
ARM – Administrative Rules of Montana
BASE Aid – Base Amount for School Equity Aid
BPE - Board of Public Education
C&A – Cultural and Aesthetic (Trust)
CC - Community Colleges
CES - Cooperative Extension Service
CHE - Commissioner of Higher Education
CHIP – Children's Health Insurance Program (also SCHIP)
CIO – Chief Information Officer
COPP - Commissioner of Political Practices
COT - College of Technology, followed by campus designation
CPI – Consumer Price Index
DEQ – Department of Environmental Quality
DMA – Department of Military Affairs
DNRC – Department of Natural Resources and Conservation
DOA – Department of Administration
DOA – Department of Agriculture
DOC –Department of Commerce (see Corrections)
DOC – Department of Corrections (see Commerce)
DOJ – Department of Justice
DOLI – Department of Labor and Industry
DOR – Department of Revenue
DP – Decision Package
DPHHS – Department of Public Health and Human Services
FCES - Forestry and Conservation Experiment Station
FMAP – Federal Medical Assistance Participation rate (Medicaid)
FSR – Federal Special Revenue
FSTS - Fire Services Training School
FTE – Full-Time Equivalent
FWP – Department of Fish, Wildlife, and Parks
FFY – Federal Fiscal Year
FY – Fiscal Year
FYE - Fiscal Year End
GAAP – Generally Accepted Accounting Principles
GF – General Fund
GSL – Guaranteed Student Loan
GTB – Guaranteed Tax Base
HAC – House Appropriations Committee
HSRA – Highways Special Revenue Account

I&I – Interest and Income
IRIS – Integrated Revenue Information System
IT – Information Technology
ITSD - Information Technology Services Division
LAD - Legislative Audit Division
LEPO - Legislative Environmental Policy Office
LFA – Legislative Fiscal Analyst
LFC – Legislative Finance Committee
LFD - Legislative Fiscal Division
LRBP - Long Range Building Program
LRP – Long Range Planning
LSD - Legislative Services Division
MAC - Montana Arts Council
MBARS – Montana Budgeting, Analysis, and Reporting System
MBCC – Montana Board of Crime Control
MBMG – Montana Bureau of Mines and Geology
MCA – Montana Code Annotated
MCHA – Montana Comprehensive Health Association
MDT – Montana Department of Transportation
MHP - Montana Highway Patrol
MHS - Montana Historical Society
MSDB – Montana School for the Deaf and Blind
MSF – Montana State Fund
MSL - Montana State Library
MSU - Montana State University, followed by campus designation i.e. MSU – Bozeman
MUS - Montana University System
NP – New Proposal
OBPP - Office of Budget and Program Planning
OCHE – Office of the Commissioner of Higher Education
OPI - Office of Public Instruction
PERS - Public Employees Retirement System
PL – Present Law
POINTS – Process Oriented Integrated Tax System
PSC - Public Service Commission
RIGWA – Resource Indemnity and Groundwater Assessment Tax
RIT – Resource Indemnity Trust
SABHRS – Statewide Accounting, Budgeting, and Human Resources System
SAO - State Auditor’s Office
SF&C –Senate Finance and Claims Committee
SOS - Secretary of State
SSR - State Special Revenue
TANF - Temporary Assistance for Needy Families
TEA – 21 – Transportation Equity Act for the 21st Century
TRS – Teachers’ Retirement System
TSEP - Treasure State Endowment Program
UM - University of Montana, followed by campus designation i.e. UM – Missoula

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